CODAN

2018 ANNUAL REPORT

INNOVATION WHEREVER YOU ARE

INNOVATION WHEREVER YOU ARE

At Codan, our purpose is to create long-term shareholder value through the design, development and manufacture of innovative technology solutions.

We work with customers in over 150 countries, solving communications, security and productivity problems in some of the harshest environments on earth.

CODAN

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Codan Limited
ABN 77 007 590 605

Annual General Meeting

The Annual General Meeting of Codan Limited will be held at 11:00 am on Wednesday, 31 October 2018 at Codan Limited, 2 Second Avenue, Mawson Lakes, South Australia.

FY18 Summary

Total revenue

$229.9m

Underlying net profit after tax

$39.8m

Annual ordinary dividend

8.5¢

fully franked (interim 4.0, final 4.5)

Annual special dividend

4.0¢

fully franked

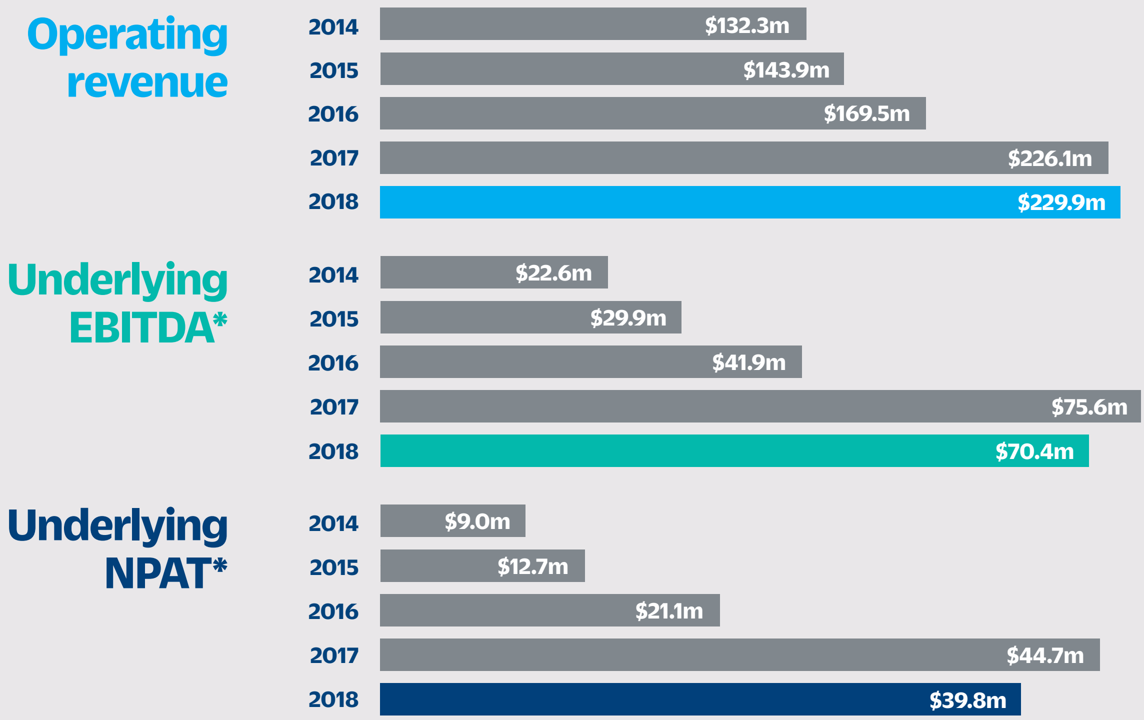
- Statutory net profit after tax of **$41.5 million**
- Underlying earnings per share of **22.1 cents**
- Broadened the earnings base, **reduced reliance on GPZ 7000®**
- Base-business sales increased to **$180 - 200 million**, up from $160 – 180 million
- Base-business NPAT increased to **$25 - 30 million**, up from $20 - 25 million
- Strong balance sheet - **$28 million net cash**

CODAN LIMITED

Founded in 1959 and headquartered in South Australia, Codan Limited (ASX:CDA) is an international company that develops rugged and reliable electronics solutions for government, corporate, NGO and consumer markets across the globe.

Codan's technologies include radio communications, metal detection and tracking solutions.

We have approximately 400 employees located in Australia, Canada, the USA, Ireland, the UAE and South Africa. Our marketing reach embraces activity in over 150 countries, with exports accounting for more than 80% of our sales.



Underlying results for the year ended 30 June		2018	% of sales	2017	% of sales	2016	% of sales	2015	% of sales	2014	% of sales
Revenue	**Note**										
Communications		**$56.5m**	**25%**	$70.9m	31%	$65.0m	38%	$63.8m	44%	$53.9m	41%
Metal detection		**$164.0m**	**71%**	$148.0m	66%	$99.2m	59%	$73.3m	51%	$69.9m	53%
Tracking solutions		**$9.4m**	**4%**	$7.2m	3%	$5.3m	3%	$4.8m	3%	$4.0m	3%
Other								$2.0m	2%	$4.5m	3%
Total revenue		**$229.9m**	**100%**	$226.1m	100%	$169.5m	100%	$143.9m	100%	$132.3m	100%
EBITDA		**$70.4m**	**31%**	$75.6m	33%	$41.9m	25%	$29.9m	21%	$22.6m	17%
EBIT		**$53.7m**	**23%**	$61.5m	27%	$29.2m	17%	$19.3m	13%	$13.6m	10%
Interest		**($0.5)m**		($0.8)m		($1.7)m		($2.5)m		($2.8)m	
Net profit before tax		**$53.2m**	**23%**	$60.7m	27%	$27.5m	16%	$16.8m	12%	$10.8m	8%
Taxation		**($13.4)m**		($16.0)m		($6.4)m		($4.1)m		($1.8)m	
Net profit after tax		**$39.8m**	**17%**	$44.7m	20%	$21.1m	12%	$12.7m	9%	$9.0m	7%
Earnings per share		**22.1c**		24.9c		11.9c		7.1c		5.1c	
Ordinary dividend per share		**8.5c**		7.0c		6.0c		3.5c		3.0c	
Special dividend per share		**4.0c**		6.0c							
Return on equity	1	**23%**		29%		16%		10%		7%	
Gearing	2	**0%**		0%		8%		22%		28%	

Notes:

1. Return on equity is calculated as net profit after tax divided by average equity
2. Gearing is calculated as net debt divided by the sum of net debt and equity

* *The financial information shown above reflects the underlying business performance. Non-underlying income/(expenses) are considered to be outside of the normal business activities of the group. For 2018, non-recurring items related to a property tax benefit.*

CHAIRMAN'S LETTER TO SHAREHOLDERS

In 2015, the board and management made a commitment to do everything possible to deliver three years of consistent performance to re-establish market and shareholder belief in the Codan story. It is pleasing that we have been able to deliver on that commitment.

In many ways, the year to June 2018 was a rewarding one. Our profit result was good, and we generated significant free cash flow notwithstanding our ongoing commitment to high levels of expenditure on new product development. Our revenue base further diversified and, although the concept of a base (or predictable) level of revenue is a challenging one, we believe that we have grown the base this year. We will persevere in attempting to identify our base-business case, as it is important that market expectations are tempered in those years where outperformance occurs.

It was great for all concerned to see a start-up business like Minetec achieve a level of success. Minetec is building a suite of disruptive technologies, but distribution is the key. This is why the agreement that we have signed with Caterpillar Inc. is so important. Please refer to Donald's report for more details. Caterpillar and Codan have made a long-term commitment to building an industry-leading technology solutions business. Success will be achieved over time.

Codan's key R&D centres are in Canada and Australia. The R&D incentives offered by both countries are important, as they encourage and reward risk-taking and innovation. We are pleased that the recently announced changes to the structure of the R&D tax incentive scheme in Australia are likely to be neutral for Codan. As the government's intention is to reward high-intensity, incremental R&D, a position of neutrality is effectively an endorsement of our approach.

I was pleased to lead the board on an overseas fact-finding tour during the year. We visited a major partner in Malaysia and also our important Dubai office, which is the centre of our African gold-market business. I believe that it is critical for the board to understand how our business is done in the field, so this commitment to learning is long term.

USA-initiated tariff impositions and retaliations by various countries have the potential to destabilise some markets. We are following developments closely and are pleased that we have global manufacturing flexibility should the need arise to change the manufacturing location of any products.

Class Action activities in Australia and the flow-on effect to Directors' and Officers' insurance premiums are a real concern for all publicly listed companies. Our Board Audit, Risk and Compliance committee has been challenged with exploring all options to balance the risk and the cost. We would far prefer to spend the recently imposed, significant premium increases on value-creating activities.

The board considered a number of acquisition opportunities during the year. Established, quality businesses of size with protectable intellectual property that can be further developed will always be given serious consideration.

I remain impressed with the quality and commitment of all Codan employees. We have a unique business providing challenging careers across many disciplines. As we grow, these opportunities will increase.

I look forward to welcoming you to our AGM in October, at which time we will provide an update on our current-year trading and our progress in growing our business.

David Simmons
Chairman

Although the concept of a base (or predictable) level of revenue is a challenging one, we believe we have grown the base this year.

CEO'S REPORT

I am very pleased to report that the company has achieved another exceptional result in FY18, maintaining near record levels of profitability and further increasing the base performance of the business.

We continue to invest heavily in new product development, and this will increase again in FY19. Our relentless pursuit of new product innovation sits at the core of our strategic growth strategy, and is complemented by our transition from being a purely products-based business to a more sophisticated solutions provider.

The business remains focused on developing leading-edge solutions that solve our customers' safety, security and productivity problems, wherever they are.

Underlying net profit after tax was $39.8 million for the year on group sales of $229.9 million. The company declared a fully franked final dividend of 4.5 cents per share, following on from the 4.0 cent per share fully franked interim dividend. This resulted in a total dividend of 8.5 cents for the full year.

In recognition of continued outperformance of the company, the directors have also announced a special dividend of 4.0 cents per share, fully franked.

Continued strong cash generation during FY18 resulted in a net cash position of $28 million at 30 June 2018. A portion of this will be used to pay the company's FY18 tax liability of $6 million which becomes payable in December 2018.

Radio Communications

The Radio Communications business has base sales in the range of $65 million to $75 million per annum, with large High Frequency (HF) projects potentially taking us to the top of this range. In FY18, we missed out on delivering some large HF projects before year-end, and LMR sales were impacted by US-Government spending. As a result, revenue decreased to $56.5 million, delivering segment contribution of $6.8 million.

The HF business is targeting the global military market for growth, with a focus on developing-world militaries in Africa, the Middle East, Asia, Eastern Europe and Latin America.

We remain focused on our strategy to broaden our revenue base by transitioning to complete communications solutions for our customers and expanding our technology platforms into more attractive, adjacent markets.

During FY18, we upgraded the features of our Sentry-H™ military radio and delivered our first substantial order. We maintained our position as the dominant HF supplier to aid and humanitarian organisations by supporting their in-country missions. We continue to conduct business development activities with a number of complementary third-party solution providers in order to supplement our customer offerings.

As previously announced, in August 2017 Radio Communications secured its first significant end-to-end LMR solution sale, with a US$4.3 million order from RiverCom 911 in Washington State. This order was successfully delivered during FY18, providing a critical reference for future LMR solutions sales in North America.

We remain optimistic about the medium to long-term growth potential in LMR and, as such, continue to invest in the development of the new Cascade™ LMR platform. We expect to see sales growth from this investment during FY20 as we progressively release new software features, upskill our sales team and develop new routes to market.

The Radio Communications division has a strong order book entering FY19 and is well positioned on a number of potential large projects. Our expectation is that Radio Communications will deliver FY19 sales in line with our base-business range.

Metal Detection

Minelab is the world leader in handheld metal detecting technologies for recreational, gold mining and demining markets. Over the past 30 years, Minelab has introduced more innovative technology than any of its competitors and has taken the metal detection industry to new levels of technological excellence. Minelab celebrated its ten-year anniversary with Codan and continues to go from strength to strength.

In FY18, Minelab had another exceptionally strong year, with revenue of $164.0 million which delivered a segment contribution of $64.1 million. While sales of our GPZ 7000® top-of-the-range gold detector remain strong, they are being complemented by significantly higher sales of the new Gold Monster® and SDC 2300® detectors in Africa.

Minelab's base business is comprised of recreational products sold into Australia, Europe and the USA, a level of gold detector sales into Africa, Asia Pacific and Latin America and sales of countermine products (detecting and clearing improvised explosive devices) globally. In the past, Minelab has had base-business sales in the range of $85 million to $95 million per annum. The combination of the EQUINOX® coin and treasure product release, an expanded gold detector range and Minelab's entry into new geographic markets has increased the base business to around $110 million per annum.

As was the case again in FY18, periods of stronger demand for gold detectors in Africa and new product introductions can push these revenues significantly higher.

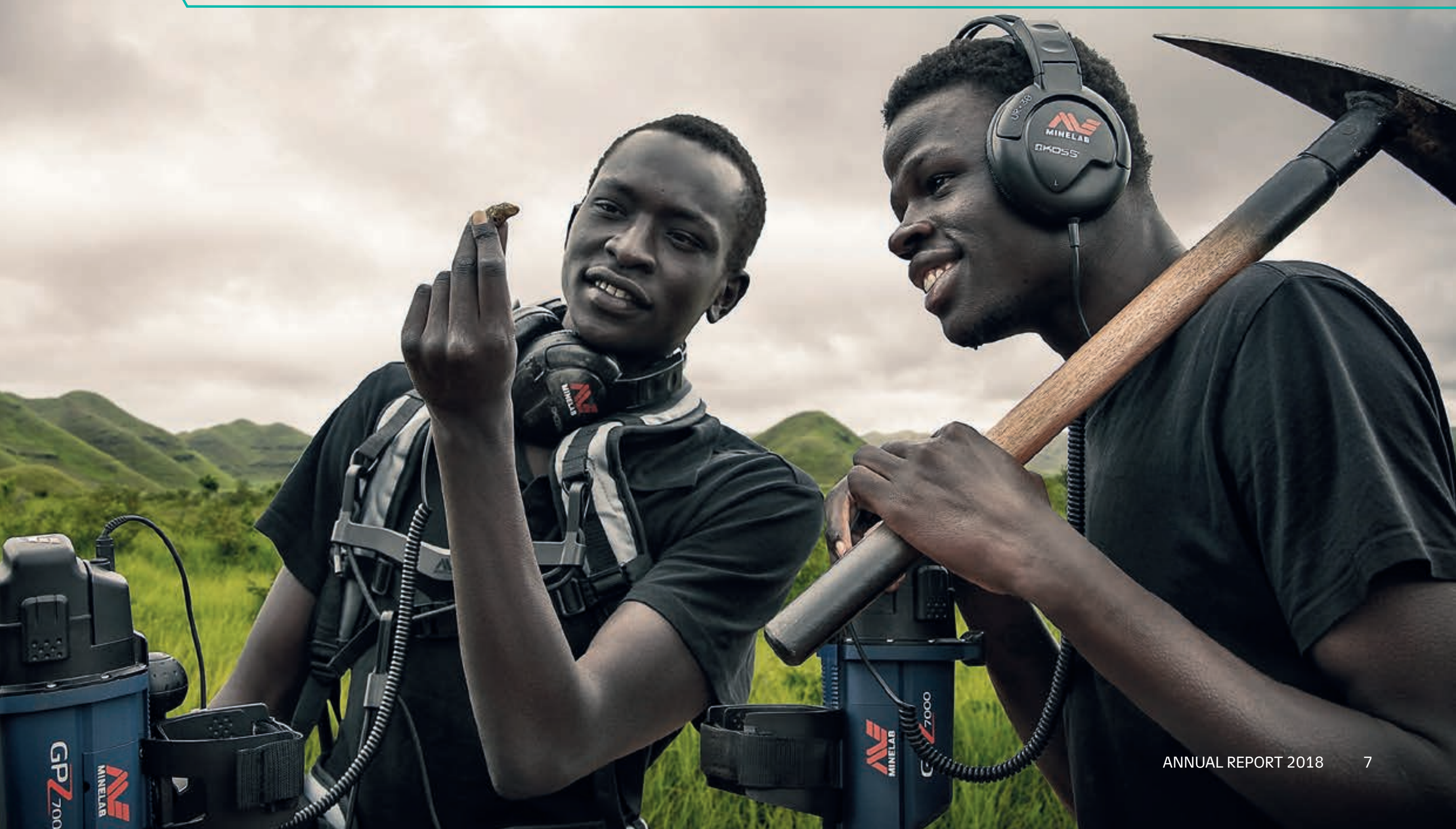
African demand continues to be driven by the superior performance of our products rather than gold surges. Existing customers are upgrading their GPX® gold detecting equipment and new customers are buying the entry-level Gold Monster®. It has also been pleasing to see a resurgence in demand for the SDC 2300®, a detector that is exceptionally good at discovering fine-particle gold. This changing sales mix has further diversified the business but has resulted in lower average margins for our gold detector products in Africa.

We remain confident in the future success of our gold detector business. We have the world's best gold detecting technology; our detectors have better anti-counterfeit protection than ever before and are being distributed more widely throughout Africa, the Middle East, Asia Pacific and Latin America.

In Minelab's established recreational markets outside Africa, the EQUINOX® detector, released in February 2018, is taking significant market share from competitors as customers discover how easy it is to become an expert detectorist overnight and find even more treasure.

Minelab delivered a significant order for the countermine F3 Compact™ detector to a country in Latin America. We won this competitive tender on the reliability and performance of our countermine technology which we are further developing in partnership with the Australian government to create a new dual-sensing countermine detector, to be released in late FY19.

We are confident of continued success in FY19.



Tracking Solutions – Minetec

Minetec provides unique, high-precision tracking, productivity and safety solutions for underground hard-rock mines. Minetec's technology enables real-time monitoring and control of mining operations, which allow miners to visualise the whole mine, enabling them to optimise productivity and enhance safety.

During FY18, Minetec achieved a number of critical milestones to commercialise its technology and put distribution in place to scale the business.

In February 2018, Minetec entered into a global licensing, technology development and marketing agreement with Caterpillar Inc. Under the terms of this agreement, Caterpillar and Minetec have begun integrating Minetec's high-precision tracking capability into an expanded Caterpillar MineStar® underground solution for hard-rock mines. The combined solution will be taken to market under the Caterpillar brand through the Caterpillar global dealer network.

In March 2018, Minetec won a contract to provide a non-GPS, surface mining proximity detection system to the Boliden Kevitsa mine in Northern Finland. The Minetec solution was proven to be more accurate and lower cost than traditional GPS-based solutions. Many surface miners are seeking a solution that is not reliant on GPS, and Minetec is well positioned to meet this need.

In May 2018, Minetec secured a $9.5 million contract to supply the Fleet Management system to BHP's Olympic Dam mine in South Australia. This followed a highly competitive global tender process and is separate from the Caterpillar agreement. It is the largest contract won by Minetec under Codan's ownership and validates the leading position of the division's proximity detection, tracking and task-management solutions.

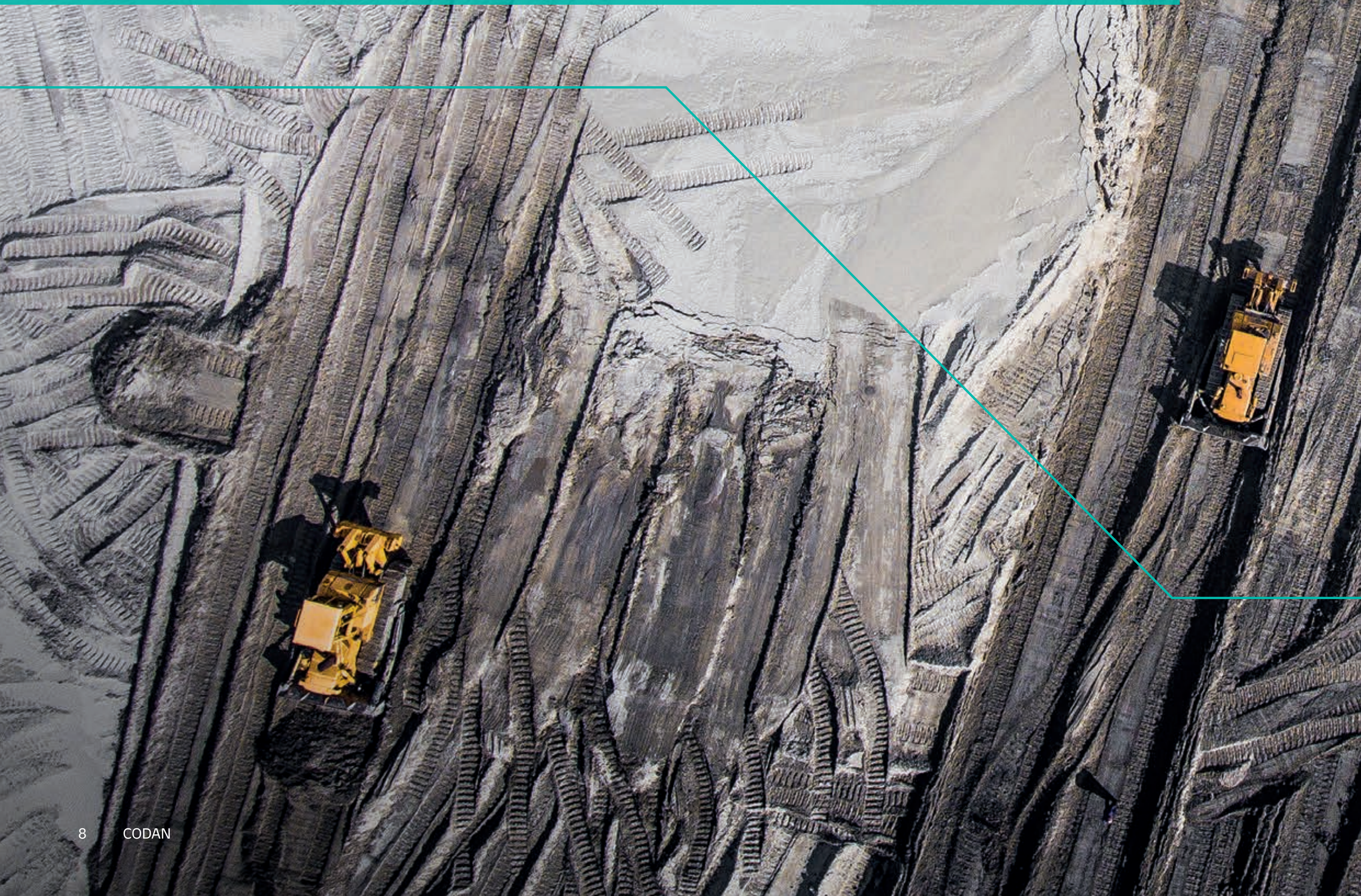
Management are targeting revenues of $15 million for Minetec in FY19 and have the objective of doubling the size of this business in the next few years.

During FY19, we will integrate Minetec's technology with Caterpillar's MineStar® system and launch the improved solution through Caterpillar's extensive sales and dealer network.

Codan Defence Electronics

Codan Defence Electronics offers high-level design and adaptation, advanced manufacturing, training and through-life support to the Australian defence industry.

While we are yet to win significant orders, we continue to build strong customer relationships and an extensive pipeline of future opportunities. Defence contracts have long sales cycles and, as a result, we have not planned for any significant revenue in FY19.

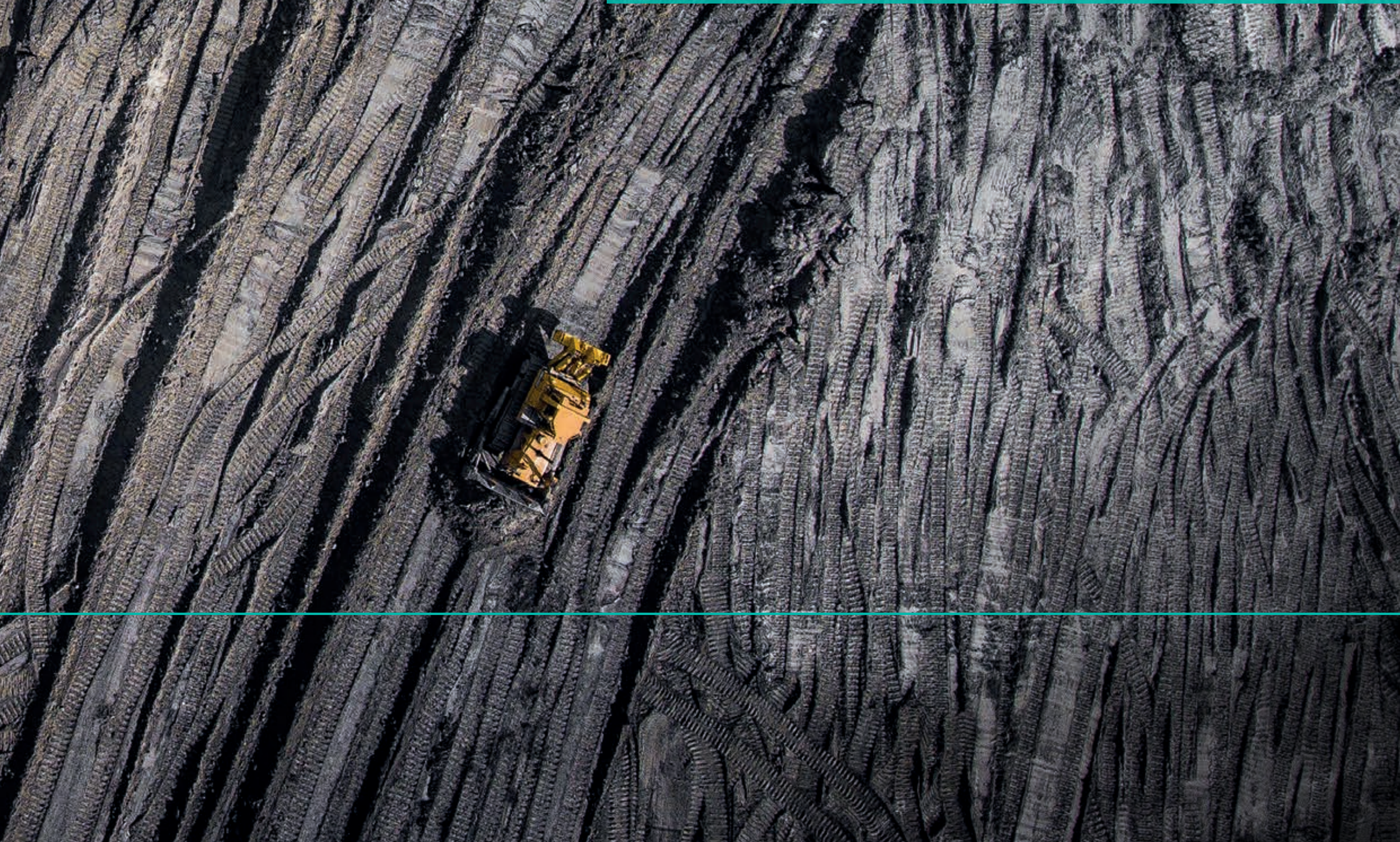


Our people

The results achieved during the year reflect the outstanding efforts of our people at all levels in the organisation. Our salespeople and engineers continue to travel to some of the most remote and hazardous places in the world in order to support our customers' operations. Our supply chain and operations team went above and beyond yet again as they battled global component shortages and unprecedented demand for our new product introductions, while still providing customers with industry-best quality and product lead times. Our support and administration people made sure all of this was possible by ensuring we continued to operate with the best systems and processes available.

On behalf of the board, I would like to acknowledge the significant efforts of our people and formally thank them for their contribution to the outstanding results achieved again this year.

Donald McGurk
Managing Director and CEO



OUR PEOPLE AND VALUES

Codan's core values are a shared set of values that shape our company culture and ultimately enable us to achieve our organisational goals.

Our core values are embodied in the strong culture of our organisation. We strive for our values to help guide our day-to-day decisions and provide the framework not only for what we do, but more importantly, how we do what we do.

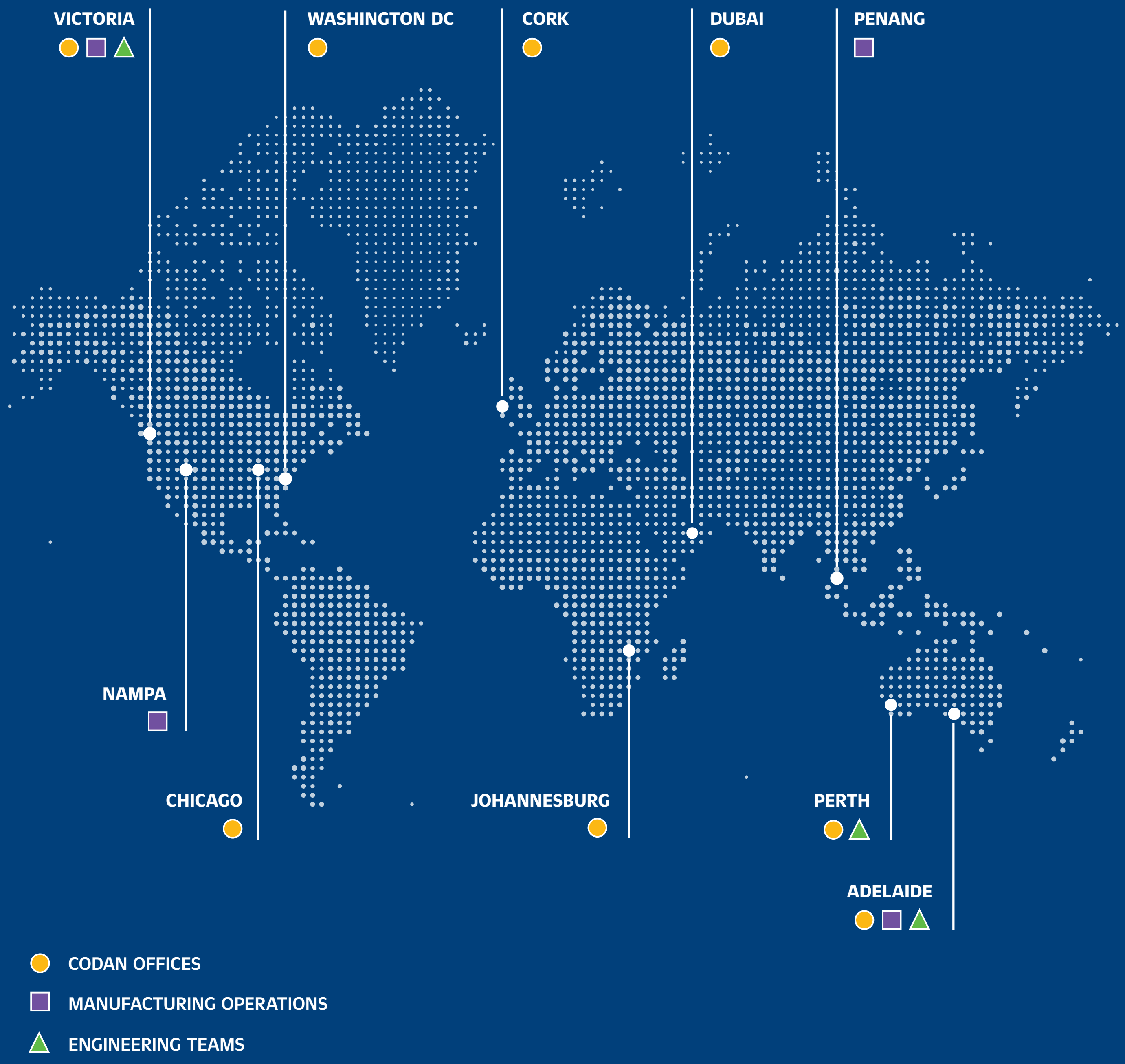
Our company's core values underpin our core purpose of delivering superior shareholder value by growing a lasting and innovative organisation that consistently creates outstanding customer experiences.

Codan seeks to employ individuals that align to and genuinely relate to our core values, and encourages all staff to help bring these values to life through their everyday interactions with one another. We hold all of our staff accountable to our values and, most importantly, our senior leaders of the business, who play a significant part in shaping our core values.

Our Core Values are:

- Can-Do
- High Performing
- Customer Driven
- Openness & Integrity

GLOBAL LOCATIONS



Selling into 150 countries with operations across the globe

OPERATIONS

RADIO COMMUNICATIONS

CODAN
RADIO COMMUNICATIONS

Codan Radio Communications is a leading international designer and manufacturer of premium communications solutions for High Frequency (HF) and Land Mobile Radio (LMR) applications. We deliver our capability worldwide for the military, defence, humanitarian, security and public safety markets. Our mission is to provide communications solutions that enable our customers to be heard so that they can save lives, create security and support peacekeeping worldwide. With almost 60 years in the business, Codan Radio Communications has garnered a reputation for quality, reliability and customer satisfaction, producing innovative and industry-leading technology solutions.

FY18 SUMMARY

- Delivered first substantial order for the new Sentry-H™ military radio
- Delivered our first end-to-end LMR solution
- Continued to develop Cascade™ LMR product platform and complementary HF military products
- Strengthened sales team to focus on solutions-oriented customers

FY19 OBJECTIVES

- Grow sales in the HF military market
- Partner with complementary solutions providers to expand our product offering
- Continue to invest in the development of new products and solutions

With deployments in more than 150 countries, Codan Radio Communications continues to enhance its world-class product and solutions design, development and implementation capability. Our focus is firmly on delivery to our customers as we enable them to be heard in the most testing conditions in the moments that matter.

Codan Radio Communications has a base level of sales in the range of $65 million to $75 million per annum, with large HF projects potentially taking us to the top of this range. In FY18, Radio Communications missed out on delivering some large HF projects before year-end, and LMR sales were impacted by a slowdown in US-Government spending. As a result, revenue decreased to $56.5 million, delivering segment contribution of $6.8 million for the year.

We remain focused on increasing and broadening our earnings base for this division by providing complete communications solutions for our customers and expanding our technology platforms into larger adjacent markets.

During FY18, we released our upgraded Sentry-H™ military radio and delivered our first substantial order. We maintained our position as the dominant HF supplier to aid and humanitarian organisations by supporting their in-country missions, and we continue to conduct business development activities with a number of complementary third-party solutions providers in order to supplement our product range.

In 2018, Radio Communications delivered its first significant end-to-end LMR solution for RiverCom 911 in Washington State. This P25 Digital LMR infrastructure solution is a good example of our transition to a communications solutions provider. The solution provides critical coverage over the varied and vast terrain of two counties in Washington State, while maintaining frequency efficiency and allowing full control from RiverCom 911's central facility. The order provides a critical reference for future LMR solutions sales in North America.

We remain optimistic about LMR's growth potential and, as such, continue to invest in the development of the Cascade™ LMR platform. We expect to see sales growth from this investment during FY20 as we release new software features, upskill our sales team and develop new routes to market.

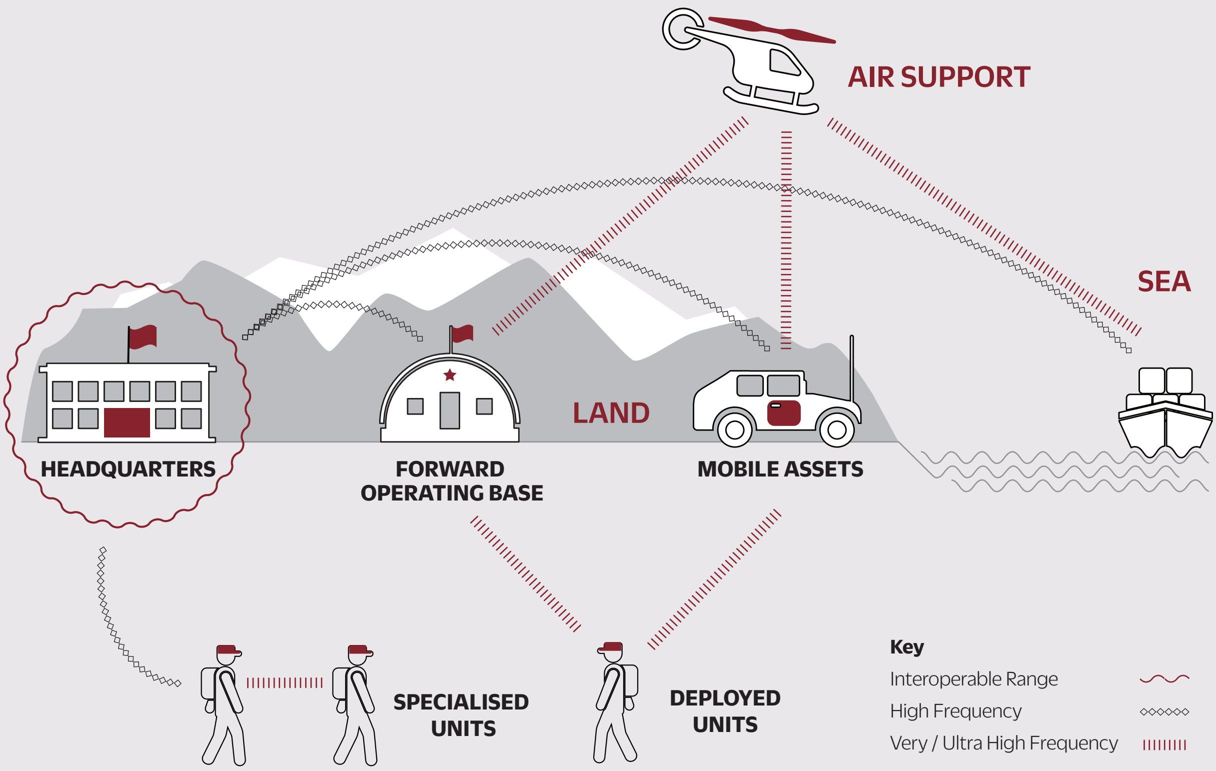
Radio Communications has a strong order book entering FY19 and is well positioned on a number of potential large projects. Our expectation is that Radio Communications will deliver FY19 sales in line with our base-business range.

MILITARY SOLUTIONS

It's not just a conflict with forces on the ground. It's a challenge to command, control and communicate to all deployed units, get real-time updates and coordinate tactics. **Codan Radio Communications enables customers to be heard.**

OUR SOLUTIONS DELIVER

- A technology suite that covers HF, VHF, UHF and solution integration as required.
- Robust waveforms that support voice and data transmissions.
- Customised easy-to-use radios and systems that meet our customers' needs – not overbuilt and complex.
- A range of compatible software solutions.
- The best Mean Time Between Failure (MTBF) scores, backed by a three-year standard warranty.
- The ability to easily add new features as our products continually evolve.



Our six principles apply to every solution we create:

WE GO WHERE CUSTOMERS GO
We design and deliver solutions to every country on earth. Not only that, we also deliver training wherever our customers are – from Somalia to Afghanistan to the United States.

NO-GAPS COVERAGE
Our products are built to the highest standard so teams will never be isolated or out of connectivity, no matter where they need to go.

RELIABILITY
Our products don't fail. We've tested and deployed them in the toughest environments and harshest climates, and back this up with our three-year extendable warranty.

FAST DEPLOYMENT
We move with our customers to the most inhospitable places on earth.

PURE SIMPLICITY
We have an easy-to-use system, intuitive interfaces, native language support and training to get users active fast.

CONNECT AND SCALE
We have access to a huge range of products and systems, allowing interoperability, scale and budget flexibility.

Codan Radio Communications ensures emergency response communication interoperability and coverage for City of Nelson, Police and Fire, and Canadian Federal Police.

The City of Nelson Police force (Municipal police) have responsibility for policing within the city boundaries, and the Federal Police have responsibility for all federal policing and all policing outside of the city boundaries. The two police agencies had no reliable means to communicate between each other since the Federal Police use P25 Digital across the country, and Nelson Police an older analogue system. A third party, the Nelson Fire Department, also has limited communications (older analogue system) around the City of Nelson.

Together with a leading consultancy, Planetworks, Codan Radio Communications designed a system to enable 100% interoperability and improved voice quality between the City of Nelson Police and the Federal Police.

The solution, which included two Codan VHF repeaters connected through a Codan 900MHz link, operates in mixed mode, analogue and P25 Digital, allowing for 100% interoperability between the City of Nelson Police and the Federal Police.

The City of Nelson Fire Department also benefited from improved radio coverage by adding Codan P25 repeaters that are operating independently across the city and mountaintop sites.

"Codan is honoured to provide the City of Nelson Police and Fire, and the Federal Police with a sophisticated communications solution to ensure critical communications between first responders when lives are on the line," stated Charlie Stuff, Executive General Manager for Codan Radio Communications.

About Planetworks

Planetworks is a dynamic collective of engineers and IT technology consultants that deliver IT expertise to both public and private sector clients.

METAL DETECTION

PERFORMANCE IS EVERYTHING

Minelab is the world leader in providing metal detection technologies for consumer, gold prospecting and military needs. Through our dedication to research, development and innovative design, Minelab is the major world manufacturer of handheld metal detection products. Over the past 30 years, Minelab has introduced more innovative and practical technology than any of our competitors and has taken metal detection technology to new levels of excellence.

FY18 SUMMARY

- Another exceptionally strong year, highest sales ever
- Successful release of the revolutionary EQUINOX® coin and treasure detector
- Diversified gold detector sales in Africa, less reliance on GPZ 7000®
- Delivered a significant order for the countermine F3 Compact™ detector
- Continued investment in new product development

FY19 OBJECTIVES

- Maximise and diversify gold detector sales globally
- Expand distribution in Latin America through our new Minelab presence in Brazil
- Continue to expand our retail distribution channels in USA and Europe
- Complete the Countermine dual-sensor development programme

The 2018 financial year was once again exceptionally strong for Minelab. Sales increased 10.8% to $164.0 million and segment contribution increased 4.1% over the prior year.

Demand for our products in Africa continues to be driven by the superior performance of our products rather than gold surges. While sales of our GPZ 7000® top-of-the-range gold detector remain strong, they are being complemented by significantly higher sales of the new Gold Monster® and SDC 2300® detectors in Africa. This changing sales mix has significantly diversified Minelab's gold detecting business.

In February, we released the EQUINOX® detector with simultaneous multi-frequency technology. This product is taking significant market share from competitors as customers discover that they can become metal detecting experts overnight and find more treasure than ever before.

We continue to retain tight control and good understanding of our distribution channels in Africa and, as a result, are selling our products into more African countries. The establishment of our distribution facility in Dubai continues to be a great success for Minelab.

Minelab employs the largest and world's best metal detection research and development team, developing technologies that are consistently superior to those of our competitors. Our new products, including the EQUINOX® Series with innovative new multi-frequency technology for coin and treasure detecting, are a reflection of the world-leading engineering development that is undertaken at Minelab.

While we are confident of continued success in FY19, the unpredictable nature of our sales into Africa makes forecasting difficult for this business. In the past, Minelab has had base-business sales in the range of $85 million to $95 million per year. The EQUINOX® product release, coupled with an expanded gold detector range and Minelab's entry into new markets, have increased this base-business by more than 20%, to around $110 million in sales per annum.

Recreation – adventure, treasure and gold

Minelab is built on the success of selling metal detectors into the major economies of Australia, North America, Europe and Russia. Our customers metal detect for the fun of it, with metal detecting being an interest, a hobby and passion, a sport, or in some cases, a source of income.

Our comprehensive range includes gold detectors, and coin and treasure detectors used to find jewellery and artefacts. This part of the business represents a significant portion of the total Minelab business and is well placed for growth as Minelab continues to release new and improved technology and products into this market.

Minelab's established recreational markets performed strongly again in FY18, with sales increasing by more than 16% collectively across Australia, North America, Europe and Russia.

The revolutionary new EQUINOX® multi-frequency detector was released in February 2018 with strong dealer interest and significant pre-orders from customers. Sales have been strong as coin and treasure hunters have found it to be adaptable for all target types and ground conditions. The EQUINOX® Series redefines all-purpose detecting for the serious enthusiast through its simultaneous multi-frequency technology, waterproof design and accurate target identification. With a recommended retail price of US$649 to US$899, this new product has contributed to growing Minelab's base-business.

Minelab continues to invest in product development for recreational markets and has a number of new, improved metal detectors in the pipeline.

Small-scale gold mining – prospecting, community and environment

Minelab's world-leading gold detection technology continues to revolutionise the way small-scale gold miners around the world prospect for gold.

The strongest demand for gold detectors comes from Africa, with the primary drivers being the adoption of metal detection technology by a large number of small-scale gold miners and the demonstrated success they have in finding gold with our detectors. These small-scale gold miners have previously used traditional and often environmentally damaging mining techniques to find gold. Minelab's metal detectors are changing the way gold is found by these miners.

In recent years, the company has successfully re-established its position as the dominant player in the African gold detecting market. We released the top-of-the-range GPZ 7000® gold detector, took control of our distribution channels and broadened our product range with the release of the entry-level Gold Monster 1000®, a gold detector that is fully automatic and easy to use.

The GPZ 7000® gold detector was released into the African market in 2016 and, over time, it has become widely accepted as the best detector for finding gold in Africa. Our engineering team went to great lengths to protect this technology from counterfeiting, and sales have exceeded our initial expectations. The sales over FY18 were relatively consistent and are being driven, in part, by customers upgrading their gold detecting equipment.

Minelab made a critical move in 2015 by establishing a showroom and distribution centre in Dubai to service the large African market. This has continued to pay dividends; we have much greater control of our distribution channels and have continued to broaden our customer base. We are now closer than ever to the end users of our detectors. The establishment of this facility and the customer relationships we are developing are critical to ensuring that Minelab succeeds in the African region over the medium term, and this is a major contributor to our success.

Now with a complete range of gold detectors priced from US$799 to US$7,999, Minelab has seen existing customers upgrading their gold detecting equipment, while new customers are buying the entry-level Gold Monster®. This has significantly diversified the Minelab business and increased the division's base-business sales.

We continue to invest in the development of small-scale gold mining markets worldwide and, while they are coming off a relatively low base, our markets in Central and Latin America and the Asia-Pacific continue to grow significantly.

Countermine – all mines, all soils, all conditions

Minelab's detectors are widely recognised for locating landmines and the explosive remnants of war. The Countermine business is strategically important to Minelab, with our continual development of leading-edge technology to rid the world of landmines and improvised explosive devices carrying over to the business' other products.

The world-leading engineering capability of the Countermine team is highlighted by the fact that Minelab won funding of $6.7 million from the Australian Army to fast-track the development of the next-generation, dual-sensing countermine detector. This programme to incorporate metal detection with ground-penetrating-radar technology has been a key focus of our engineering team over the past two years, with completion expected in FY19. This project has been technically challenging and its success should open up sales opportunities to the Australian Army and other allied first-world armies.

Minelab's Countermine detectors are manufactured in Adelaide and exported to more than 55 countries around the world where landmines remain a threat. These include Cambodia, Angola, Sri Lanka, Vietnam, Mozambique, Colombia, Lebanon and Afghanistan, to name but a few.

METAL DETECTION

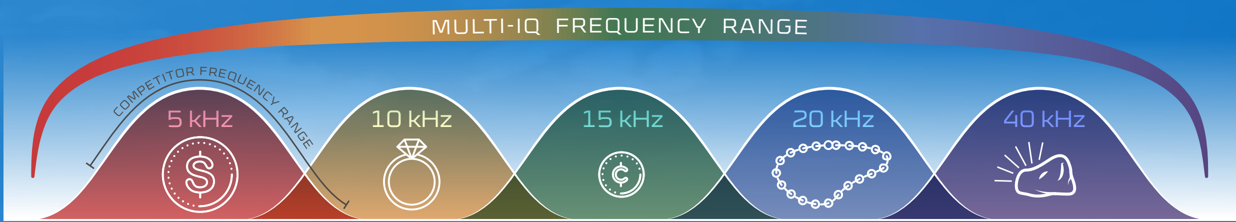
Minelab's engineers were challenged with developing a lightweight, waterproof and technologically advanced metal detector for the coin and treasure market. The EQUINOX® Series redefines all-purpose detecting for the serious enthusiast and is equally adaptable for all target types and ground conditions.

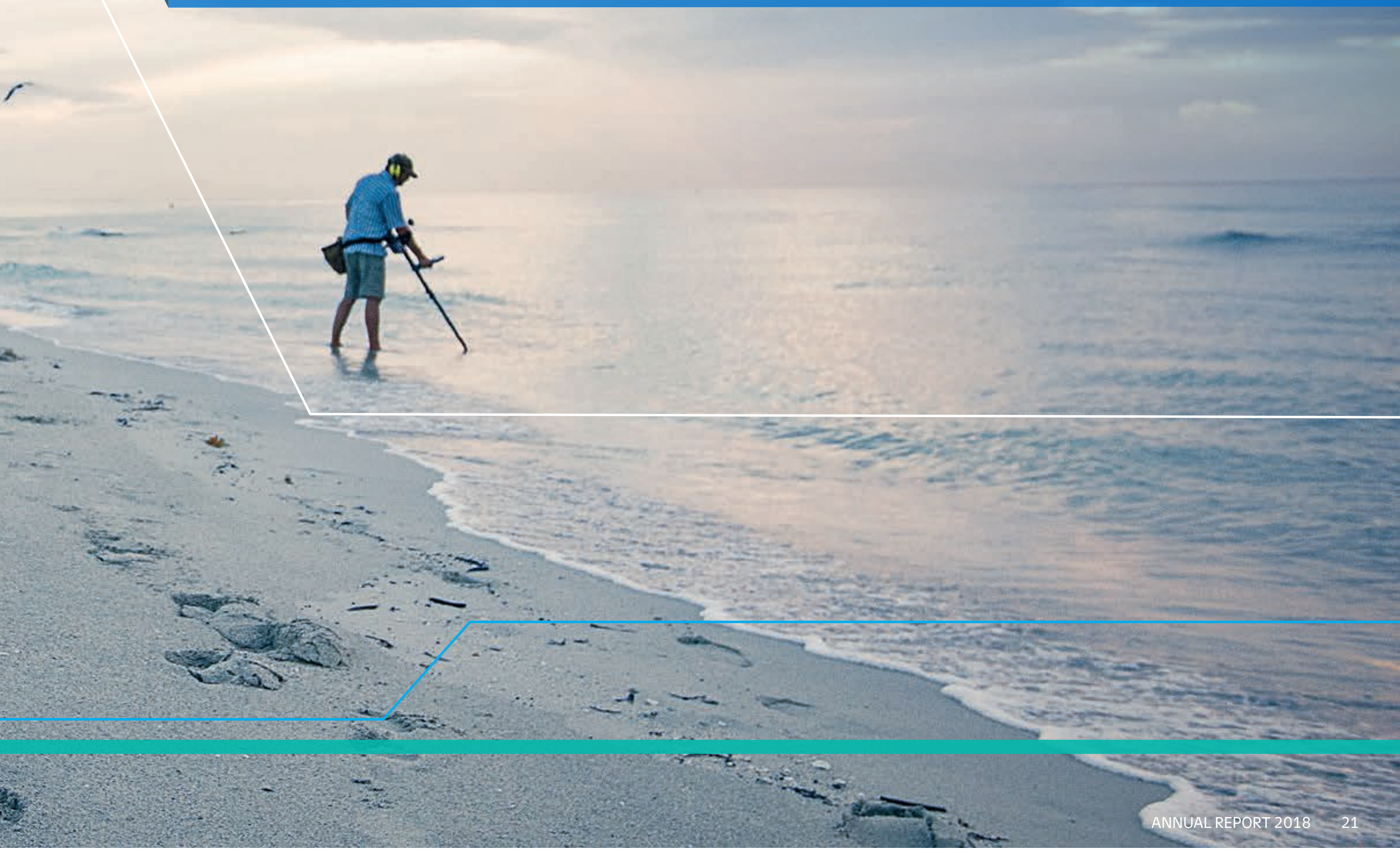
Multi-IQ is Minelab's next major innovation, as it operates across the full spectrum of frequencies simultaneously for maximum results.

The EQUINOX® series offers two models which are fully submersible and ideal for detecting at the beach and in rivers, streams and lakes. The EQUINOX® 600 offers three turn-on-and-go detect modes – Park, Field and Beach – and operates at 5 kHz, 10 kHz, and 15 kHz single frequencies. The EQUINOX® 800 offers extra versatility with the added functionality of a gold mode, high frequency of 20 kHz and 40 kHz, wireless audio accessories and advanced settings.

Each detect mode on the EQUINOX® 600/800 offers two adjustable search profiles with unique default settings.

The EQUINOX® Series, with its innovative multi-frequency technology, was introduced to the market in FY18, causing unprecedented demand and excitement among recreational detector enthusiasts and throughout the entire metal detecting industry.





TRACKING SOLUTIONS

MINETEC™

Minetec provides unique high-precision tracking, productivity and safety solutions for underground hard-rock mines. Minetec's technology enables real-time monitoring and control of mining operations, which allow miners to visualise the whole mine in order to optimise productivity and enhance safety.

FY18 SUMMARY

- Significantly improved distribution through partnership with Caterpillar Inc.
- Validated Minetec's technology by securing a major contract with BHP
- Delivered a surface mining solution

FY19 OBJECTIVES

- Integrate Minetec's technology with Caterpillar's MineStar® solution
- Successfully launch the improved MineStar® solution through Caterpillar's global distribution network
- Deliver BHP contract on time and on budget
- Continue to develop opportunities for our core technology

Minetec has a long history of providing communications services to the mining industry, and in recent years has been transitioning to a high-value-add technology solutions provider.

Minetec has developed a range of core technologies to deliver innovative, data-driven mining systems that combine world-class high-precision tracking of assets underground, wireless mesh data communications and task-management software specific to the challenges of underground mining.

These technologies combine to offer a range of safety and productivity capabilities to our customers:

Safety:

- **Proximity awareness:** increased visibility of machines and vehicles
- **Traffic management:** control of physical access within congested areas
- **Proximity detection:** audio and visual alerts of machinery, vehicles or other miners in close proximity
- **Collision avoidance:** the ability to automatically slow or stop a vehicle in response to nearby threats.

Productivity:

- **Machine data:** provision of real-time data to support production and maintenance planning
- **Development, production and maintenance scheduling:** automated shift planning for underground operations
- **Short interval control:** the ability to modify the shift plan in real time.

During FY18, Minetec achieved a number of critical milestones to commercialise its technology and put distribution in place to scale the business.

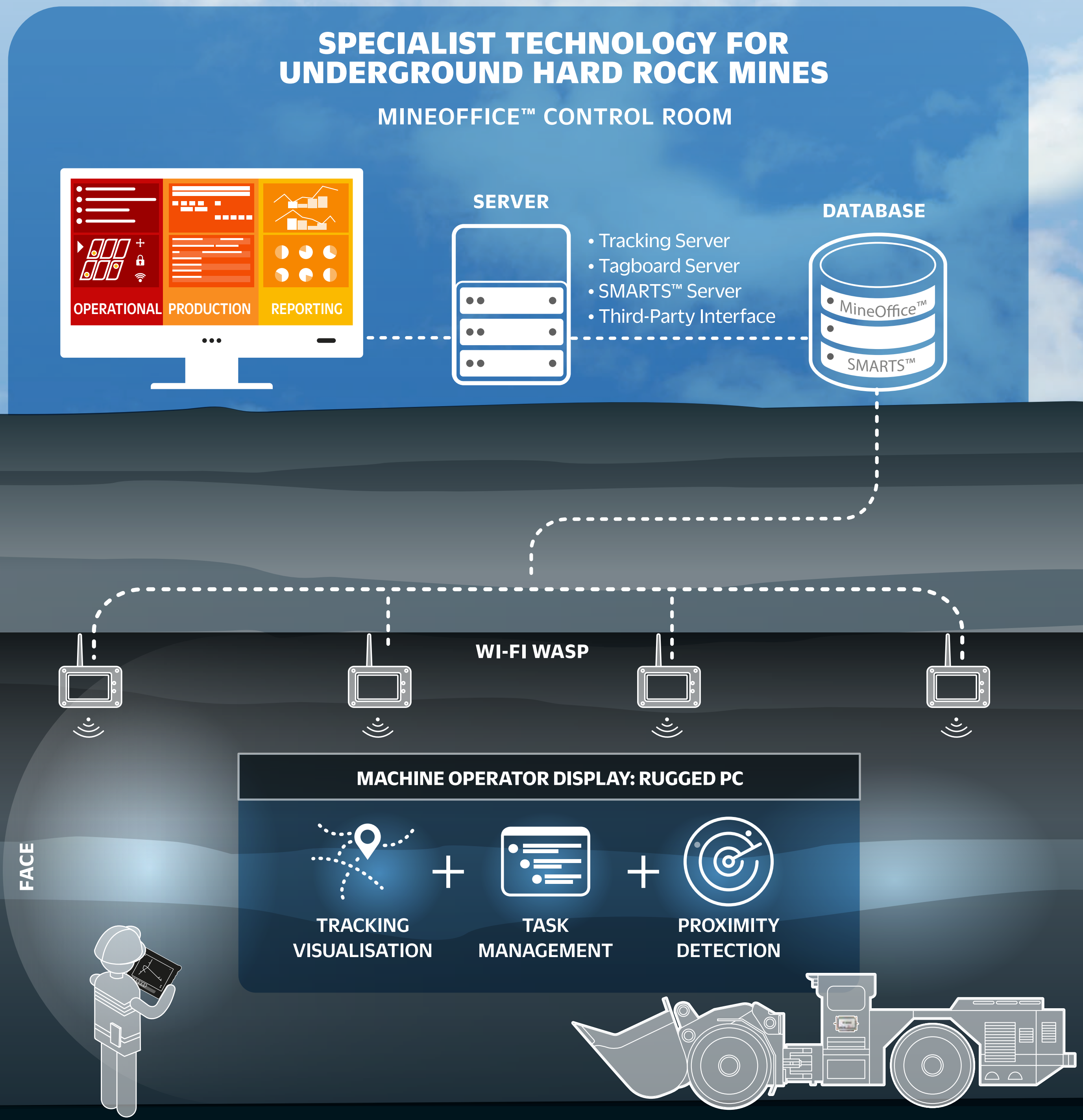
In February 2018, Minetec entered into a global licensing, technology development and marketing agreement with Caterpillar Inc. Under the terms of this agreement, Caterpillar and Minetec have begun integrating Minetec's high-precision tracking capability into an expanded Caterpillar MineStar® underground solution for hard-rock mines. The combined solution will be taken to market under the Caterpillar brand through the Caterpillar global dealer network.

In March 2018, Minetec won a contract to provide a non-GPS, surface mining proximity-detection system to the Boliden Kevitsa mine in Northern Finland. The Minetec solution was proven to be more accurate and lower cost than traditional GPS-based solutions. Many surface miners are seeking a solution that is not reliant on GPS, and Minetec is well positioned to meet this need.

In May 2018, Minetec secured a $9.5 million contract to supply the Fleet Management system to BHP's Olympic Dam mine in South Australia. This followed a highly competitive global tender process. It is the largest contract won by Minetec under Codan's ownership and validates the leading position of the division's proximity-detection, tracking and task-management solutions.

Minetec's integrated suite of productivity, safety, tracking and communications solutions delivers significant improvements for underground mines and provides technology that is critical in the move toward autonomous mine operations.

Our strategy for Minetec is to deliver on the opportunities that will scale the business to achieve sales and profitability that are of a level that is significant to the Codan group. Management are targeting revenues of $15 million for Minetec in FY19 and have the objective of doubling the size of this business in the next few years.



MINESTAR® UNDERGROUND TACKLING OPERATIONAL CHALLENGES IN UNDERGROUND MINING

In February, Minetec announced that it had entered into a global technology development partnership with Caterpillar Inc., the world's largest plant and equipment manufacturer and leading heavy vehicle supplier to the global mining market.

The technology development partnership is designed specifically to address the unique challenges experienced in the GPS-deprived underground mine environment. The partnership will deliver best-in-class mine-management solutions that incorporate data-driven mining and integrate manned, remote and autonomous operations.

The collaborative effort will leverage the natural synergies and capabilities of both parties through the integration of Minetec's proprietary task-management, underground-tracking, visualisation and data-communications technology into a new MineStar® Underground technology platform. Caterpillar's MineStar® has long been recognised as an industry-leading fleet-management platform, built on the foundation of Caterpillar's years of experience in mining equipment and performance analytics.

The enhanced MineStar® Underground product, distributed through Caterpillar's global dealer network, will target performance improvements across the entire mine production value chain, in terms of safety, productivity and performance analytics.

Traditionally, information flow and operational feedback from underground mine operations have been very poor. This creates a significant window of opportunity for a solution to provide a step change in how mining companies monitor, learn and improve their operations. MineStar® Underground will deliver that improvement.

Caterpillar's Mining Technology Product Manager, Sean McGinnis, believes that, "Through this collaboration, Minetec & Caterpillar now offer the industry's most complete, integrated solution for hard-rock underground mines of every size, type, complexity and mining method. It's a whole-of-mine technology platform available from a single integrator, backed by the world-class support through the global Caterpillar dealer network."

From FY19, customers can expect the MineStar® Underground solution to provide a range of capabilities spanning high bandwidth underground Wi-Fi communications, sub-metre vehicle and personnel tracking, task and fleet management, machine health and proximity detection. All data captured through MineStar® Underground is housed in a single integrated database, providing access to operational data through a single reporting framework, DataPro.

Ultimately, the vision for MineStar® Underground is a single technology solution that delivers a step change in safety and productivity for underground hard-rock mines, irrespective of the machine brand or type and spanning the full range of manned, remote and autonomous operations.

MINETEC™ CATERPILLAR®

Minetec & Caterpillar now offer the industry's most complete, integrated solution for hard-rock underground mines of every size, type, complexity and mining method.

DEFENCE ELECTRONICS

Codan Defence Electronics offers high-level design and product development, advanced manufacturing and through-life support to the Australian defence industry.

Codan has a long history of supplying the defence sector, with the company's communications products and landmine detectors used by military organisations worldwide. We have a core technical competency in radio frequency subsystem design, which is the basis of our metal detection and communications businesses.

These capabilities have the company well placed to provide further engineering solutions and manufacturing expertise to the Australian defence sector.

Codan Defence Electronics was created to capitalise on favourable Australian defence industry policy settings that ensure prime contractors offer meaningful Australian Industry Capability (AIC) to the Australian Government. Codan is working with prime contractors across multiple opportunities to offer quality, cost-effective contract manufacturing and support services as part of their AIC commitment.

Codan Defence Electronics has a strong offering into this market, through its surface-mount manufacturing capability, mature supply chain management and the financial robustness of the Codan group.

During FY18, Codan was awarded a $0.5 million grant from the Commonwealth Government's Advanced Manufacturing Growth Fund to upgrade the company's surface-mount technology production line. With the addition of company funds, the expected total investment in the new line will be approximately $1.6 million. This new production line will allow Codan to be globally competitive in winning defence electronics manufacturing work.

Since the establishment of Codan Defence Electronics in FY17, the team has prepared bids to supply Codan's subcontractor capabilities into a range of defence programmes. These include:

- **SEA 1000**, the Future Submarine Program to acquire 12 submarines which will be the largest defence procurement programme in Australia's history, with a total investment in the range of $50 billion;
- **Land 400 Phase 2**, a programme to acquire 211 armoured vehicles for the Australian Army, with a total investment in the range of $5.2 billion; and
- **SEA 5000**, the Future Frigate Program to acquire a future class of nine frigates for the Royal Australian Navy to replace the ANZAC-class. Construction is expected to begin in 2020, with the first vessel to enter service in the late 2020's.

While no contracts have yet been awarded to Codan, we are building a pipeline of opportunities and remain confident that we will win enough work in the future to make Codan Defence Electronics a meaningful division of Codan.

ENGINEERING AND OPERATIONS

CODAN

Engineering and Operations enhance Codan's growth and continuous improvement by driving technical excellence across the company. We operate highly disciplined and efficient engineering, advanced manufacturing and supply chain management to ensure programme success.

Engineering

Codan maintains a world-class team of research, engineering and technical staff, employing more than 150 engineers across the globe.

With teams in Adelaide, Perth and Victoria, our capabilities span a cross-section of engineering disciplines, including software, electronics and mechanical engineering. We have a number of PhD-qualified physicists and software, electronics and signal processing engineers on staff, recruited from Australia and overseas. Our engineering teams ensure that technology is released to specification, on schedule and with appropriate intellectual property (IP) protection.

We also utilise a number of field testers from around the world, as well as a network of service providers when required.

This combination of core competencies allows us to continuously develop unique IP to solve our customers' communications, security and productivity problems in some of the harshest environments.

Advanced manufacturing

The ability to manufacture precision electronics products and associated software is a core competency of Codan's, and remains a sustainable competitive advantage driving our future growth. The company is committed to pursuing ongoing efficiencies, flexibility and investment in its production capabilities.

With an upgrade to our surface-mount technology production line in FY19, Codan's Adelaide manufacturing facility will continue to be an integral and strategic element of the company's operations, serving as a technology hub for new product development and the manufacture of "IP-sensitive" and high-complexity products. Of particular note are Codan's security-featured radios and Minelab's landmine detectors, which retain local manufacture. Minetec's personal tracking devices, reference nodes and other hardware are also manufactured in Adelaide.

Codan's relationship with one of the world's leading sub-contract electronics manufacturers, Plexus Corp, remains a cornerstone of the company's manufacturing strategy. The majority of manufacturing is still carried out in Malaysia, while manufacture of land mobile radio products takes place at a Plexus facility in Nampa, Idaho, for supply into the US market. The partnership with Plexus, a US-owned company specialising in defence, aerospace and medical electronics manufacturing, will ensure that Codan's well-proven manufacturing processes and exceptional performance, quality and delivery standards continue.

Codan has adopted stringent testing and quality control procedures. It is accredited to AS 9100 Quality Management Systems – Requirements for Aviation, Space and Defence, and both Codan and Plexus maintain quality assurance systems approved to International Standard AS/NZS ISO 9001.

Supply chain management

Codan has an extensive global supply chain in place, sourcing product and material from most regions in the world. We work with suppliers who meet stringent quality standards, are innovative and work in safe and responsible ways. Our dealings with our suppliers reflect Codan's core values, and, as such, we have built collaborative, honest and trusting relationships which have resulted in reliable supply over the long term.

Our supply chain is responsive to the changing needs of our customers and markets. All Codan suppliers must provide agility, flexibility and speed to market. At the end of our supply chain are global distribution centres located in Dubai, Chicago, Netherlands, Penang and Adelaide, which ensure product is regionally distributed for the fastest route to market.

Manufacturing and distributing our world-class products demands a strong, cohesive and responsive supply chain, and at Codan we have experienced professionals dedicated to the delivery of supply chain excellence.

Workplace health, safety and environment

Codan is committed to a philosophy of zero harm for all staff in all areas of the business, and we are conscious of our impact on the environment during the manufacture, distribution, use and disposal of our products. We are particularly conscious of exposing employees to critical risk, especially with respect to those travelling to remote locations. As such, Codan engages experts to ensure the safety and welfare of its travellers.

We maintain an effective Work Health, Safety and Environmental Management System that is integral to our business processes and are accredited to OHSAS 18001 and AS/NZS 4801 Occupational Health and Safety Management Systems and AS/NZS ISO 14001 Environmental Management Systems.

Facilities

Codan's global head office is located in the Technology Park precinct at Mawson Lakes, South Australia, where around 250 Codan, Minelab and Minetec staff are located.

The facility houses the company's world-class advanced manufacturing facilities, focusing on new product development and manufacture of our security-featured radios, mine-clearance products and tracking-solutions hardware. It allows capacity for future growth and includes extensive training and demonstration facilities which are used to showcase our products to a global customer base.

BOARD OF DIRECTORS

David Simmons

BA (Acc)

Chairman, Independent Non-Executive Director

David was appointed by the board as Chairman in February 2015 and has been a director of Codan since May 2008. He worked in the manufacturing industry throughout his career and has extensive financial and general management experience. David joined Hills Industries Limited in 1984, where he was appointed Finance Director in 1987 and Managing Director in 1992. He retired from Hills Industries Limited in June 2008.

Donald McGurk

HNC (Mech Eng), MBA, FAICD, Harvard AMP

Managing Director and Chief Executive Officer

Donald was appointed to the board as a director in May 2010, and was appointed as Managing Director in November 2010. Donald joined Codan in December 2000 and had executive responsibility for group-wide manufacturing until his transition into the role of CEO. In addition to his manufacturing role, from 2005 to 2007 Donald held executive responsibility for sales of the company's communications products, and from 2007 to 2010, executive responsibility for the business performance of the company's HF radio products. Donald came to Codan with an extensive background in change management applied to manufacturing operations, and held senior manufacturing management positions in several industries. Donald holds a Masters Degree in Business Administration from Adelaide University and completed the Advanced Management Program at Harvard University in 2010.

Peter Leahy AC

BA (Military Studies), MMAS, GAICD

Independent Non-Executive Director

Peter was appointed to the board in September 2008. He retired from the Army in July 2008 after a 37-year career and six years as Chief of Army. His distinguished service was recognised with his 2007 appointment as Companion of the Order of Australia. Since leaving the Army he has been appointed as Professor and Foundation Director of the National Security Institute at the University of Canberra. He is the Chief Defence Advisor to the Queensland Government, has been a director of Electro Optic Systems Holdings Limited since May 2009 and a director of Citadel Group Limited since June 2014. Peter holds a Master of Military Arts and Science from the US Army Command and General Staff College, where he also served as an instructor, and is a graduate of the Australian Institute of Company Directors. In August 2014, he was appointed to the Australian Federal Government's First Principles Review Team, an initiative designed to ensure that the Australian Department of Defence is fit for purpose and able to promptly respond to future challenges.

Jim McDowell

LLB (Hons)

Independent Non-Executive Director

Jim was appointed to the board in September 2014. He joined British Aerospace in Singapore in August 1996 and, during his time with British Aerospace, served as the Managing Director – Asia and Chief Executive Officer of BAE Systems Australia Limited. He was Chief Executive Officer of BAE Systems Saudi Arabia from September 2011 until December 2013. Jim is Chair of Australian Nuclear Science and Technology Organisation and Chair of Defence Co-operative Research Centre in Trusted Autonomous Systems. He has been a director of Austal Limited since December 2014, a director of Micro-X Limited since September 2017 and is Chancellor of the University of South Australia. Jim resigned from the board on 31 August 2018.

Graeme Barclay

MAICD, F Fin, CA, MA (Hons)

Independent Non-Executive Director

Graeme was appointed to the board in February 2015. He has 30 years of international business experience in professional services, broadcast and telecommunications, and extensive knowledge of business in the communications services, technology and infrastructure markets. He was Group Chief Executive Officer of the Broadcast Australia group for 11 years, following three years as Chief Financial Officer and Chief Operating Officer, retiring in April 2013. In his time with Broadcast Australia, the business grew domestically and expanded internationally, and diversified into private networks, transit location communications and data centre operation and managed hosting services. From July 2010 until September 2013, he was Chairman of Transit Wireless LLP, which has the exclusive rights to install and operate cellular and Wi-Fi systems in the New York subway. From 2002 to 2009, he was an executive director in Macquarie Group's infrastructure team and was involved in several acquisitions and capital raising transactions for the then listed Macquarie Communications Infrastructure Group. He has been a Non-Executive Director of BSA Limited since June 2015 and is the founder and Executive Director of First Horizon Advisory. Graeme is a chartered accountant, holding membership of the Institute of Chartered Accountants of Scotland and of Chartered Accountants Australia and New Zealand.

Kathy Gramp

BA (Acc), CA, FAICA, FAICD

Independent Non-Executive Director

Kathy was appointed to the board in November 2015. She has had a long and distinguished executive career and over 17 years of board experience across a diverse range of Australian organisations and industry sectors. She has had exposure to international markets and has a wealth of experience in corporate finance at both strategic and operational levels. In 1989, Kathy joined Austereo Ltd, Australia's largest commercial radio network, at a senior corporate level, and her career with Austereo spanned 22 years. As Chief Financial Officer and a member of the Executive Committee, she was closely involved in Austereo's national and international expansion and its successful move into digital and online radio. Kathy was a director, Chair of Audit & Risk and a member of the Remuneration Committee of Godfreys Group Limited from January 2018 until May 2018, was previously a director and member of the Audit & Risk and Remuneration Committees of Southern Cross Media Group Limited and has significant audit committee experience. Kathy is a chartered accountant and a Fellow of the Australian Institute of Company Directors and the Institute of Chartered Accountants Australia and New Zealand.

LEADERSHIP TEAM

Donald McGurk

HNC (Mech Eng), MBA,
FAICD, Harvard AMP

Managing Director and Chief Executive Officer

Donald is a motivator of people, with extensive knowledge and experience in the areas of change management and strategy formulation.

Donald joined Codan in December 2000 and had executive responsibility for group-wide manufacturing until his transition into the role of CEO. From 2005 to 2007, he also held executive responsibility for sales of the company's communications products and, from 2007 to 2010, executive responsibility for the business performance of HF radio products.

Donald was appointed to the board as a director in May 2010 and became Managing Director in November 2010.

For more details of Donald's qualifications and experience, please see page 30.

Michael Barton

BA (Acc), CA

Chief Financial Officer and Company Secretary

Michael joined Codan in May 2004 as Group Finance Manager and was appointed Company Secretary in May 2008. In September 2009, Michael was promoted to the position of Chief Financial Officer and Company Secretary and is responsible for financial control and reporting across the Codan group. He holds a Bachelor of Arts in Accountancy from the University of South Australia and is a member of Chartered Accountants Australia and New Zealand.

Peter Charlesworth

BEEEng (Hons), MBA, GAICD, Harvard AMP

Executive General Manager, Minelab and Codan Defence

Peter brings extensive knowledge and experience to Codan from more than 30 years in the electronics industry, including 15 years at Codan and formerly in management and technical roles at Tenix Defence and Vision Systems.

Peter joined Codan in 2003 as General Manager of Engineering and subsequently held various roles including New Business Manager and HF Radio Business Development Manager. He was appointed Executive General Manager of Minelab in 2008, following its acquisition by Codan in that same year. In addition to Minelab, Peter is Executive General Manager of Codan Defence Electronics.

Peter holds a degree in Electrical and Electronic Engineering with First Class Honours, and a Masters of Business Administration, both from Adelaide University. He is also a Graduate Member of the Australian Institute of Company Directors and completed the Advanced Management Program at Harvard University in 2014. He was Chairman of the Technology Industry Association from 2006 to 2011 and was on the Adelaide University ARI Advisory Board from 2009 to 2015. He is also a member of the SA Government Department of State Development grant review committee. Peter is Chairman of the Board of the charity, United Way SA, which runs the "United We Read" programme for disadvantaged pre-school children.

Rory Linehan
BSc (Hons), MSc, PhD

Executive General Manager, Minetec

Rory brings a unique mix of technical knowledge, diverse commercial skills and broad experience to Codan, delivering insightful leadership across the business.

He joined Codan in 2014, working across the group to leverage technology and innovation in developing strategies for growth. In addition to this group role, Rory is Executive General Manager of Minetec.

Rory holds degrees in Physics and Engineering and a PhD in Mathematics from Coventry University (UK). He has skills in strategy, marketing, business development, systems engineering and programme management gained across a wide range of projects, including development of the Boeing 787 primary flight-control system.

Prior to Codan, Rory held a number of senior positions with blue-chip firms in the UK, including McLaren, Cobham and Goodrich.

Charlie Stuff
MBA, BSc

Executive General Manager, Radio Communications

Charlie brings unique knowledge to Codan through his background as a US Army Officer and extensive senior management experience at Rockwell Collins and Cobham.

Charlie was appointed to the role of Executive General Manager, Radio Communications in 2015 and transitioned into the role of Executive General Manager, Land Mobile Radio in June 2018. Based in Victoria, British Columbia, he has been integral to the success of Codan's Land Mobile Radio business since the acquisition of Daniels Electronics in 2012.

Charlie holds a Masters of Business Administration from Central Michigan University, and a Bachelor of Science in Business from Auburn University.

CORPORATE GOVERNANCE STATEMENT

Codan's corporate governance statement, which was approved by the board on 23 August 2018, is available on the company's website and may be accessed via the following URL: http://codan.com.au/who-is-codan/corporate-governance

FINANCIAL REPORT
for the year ended 30 June 2018

Directors' Report

The directors present their report together with the financial statements of the group comprising Codan Limited ("the company") and its subsidiaries for the financial year ended 30 June 2018 and the auditor's report thereon.

Directors

The directors of the company at any time during or since the end of the financial year are:

David Simmons

Donald McGurk

Peter Leahy AC

Jim McDowell

Graeme Barclay

Kathy Gramp

Details of directors and their qualifications and experience are set out on pages 30 to 31.

Company Secretary

Mr Michael Barton BA (Acc), CA

Michael joined Codan in May 2004 as Group Finance Manager and was appointed Company Secretary in May 2008. In September 2009, Michael was promoted to the position of Chief Financial Officer and Company Secretary and is responsible for financial control and reporting across the Codan group. He holds a Bachelor of Arts in Accountancy from the University of South Australia and is a member of Chartered Accountants Australia and New Zealand.

Directors' Meetings

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the company during the financial year are set out below:

	Board meetings		Board Audit, Risk and Compliance Committee meetings		Remuneration and Nomination Committee meetings	
Director	**A**	**B**	**A**	**B**	**A**	**B**
Mr D J Simmons	11	11	3	4	2	2
Mr D S McGurk	11	11				
Lt-Gen P F Leahy	9	11			2	2
Mr J W McDowell	10	11			2	2
Mr G R C Barclay	11	11	4	4		
Ms K J Gramp	10	11	4	4		

A – Number of meetings attended
B – Number of meetings held during the time the director held office during the year

Remuneration Report – Audited

Principles of remuneration

Key management personnel comprise the directors and executives of the group. Key management personnel have authority and responsibility for planning, directing and controlling the activities of the group.

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced executives. The Remuneration and Nomination Committee may obtain independent advice on the appropriateness of remuneration packages, given trends in comparative companies both locally and internationally. Remuneration packages can include a mix of fixed remuneration and performance-based remuneration.

The remuneration structures explained below are designed to attract suitably qualified candidates, and to achieve the broader outcome of increasing the group's net profit. The remuneration structures take into account:

- the overall level of remuneration for each director and executive;
- the executive's ability to control the relevant segment's performance; and
- the amount of incentives within each key management person's remuneration.

Certain executives may receive incentive payments based on the achievement of performance hurdles. The performance hurdles relate to measures of profitability. The bonus payable to certain executives may relate to the qualitative performance of the executive against objectives agreed as part of the budget and strategic planning processes. For FY18, the potential incentive payable to certain executives is based on 50% of the executives' fixed salaries inclusive of superannuation, but can exceed this level if performance hurdles are exceeded, subject to a 200% cap.

These performance conditions have been established to encourage the profitable growth of the group. The board considered that for the year ended 30 June 2018 the above performance-linked remuneration structure was appropriate.

Total remuneration for all non-executive directors, last voted upon by shareholders at the 2010 AGM, is not to exceed $850,000 per annum. Non-executive directors do not receive any performance-related remuneration nor are they issued options on securities. Directors' fees cover all main board activities and membership of committees.

Service contracts

It is the group's policy that service contracts for key management personnel executives are unlimited in term but capable of termination on three to six months' notice, and that the group retains the right to terminate the contract immediately by making payment in lieu of notice. The group has entered into a service contract with each key management person.

The key management personnel are also entitled to receive on termination of employment their statutory entitlements of accrued annual and long service leave, as well as any entitlement to incentive payments and superannuation benefits.

Performance rights

At the 2004 AGM, shareholders approved the establishment of a Performance Rights Plan (Plan). The Plan is designed to provide nominated executives with an incentive to maximise the return to shareholders over the long term, and to assist in the attraction and retention of key executives.

The number of performance rights issued represents 50% of the nominated executives' fixed pay divided by the volume weighted average of the company's share price in the five days after the release of the group's annual results. For executives not participating in the performance rights plan, other benefits may be offered to encourage long-term performance.

Details of performance rights granted to executives during the year are as follows:

	Number of performance rights granted during year	Grant date	Average fair value per right at grant date (cents)	Exercise price per right (cents)	Expiry date	Number of rights vested during year
Directors						
Mr D S McGurk	124,524	10 November 2017	180.2	–	30 June 2021	–
Executives						
Mr M Barton	65,559	8 December 2017	166.0	–	30 June 2021	–
Mr P D Charlesworth	81,058	8 December 2017	166.0	–	30 June 2021	–
Mr R D Linehan	79,469	8 December 2017	166.0	–	30 June 2021	–

Directors' Report (continued)

Remuneration Report – Audited (continued)

Performance rights (continued)

The performance rights granted on 10 November 2017 and 8 December 2017 become exercisable if certain performance requirements are achieved. The performance requirements are based on growth of the group's earnings per share over a three-year period using a base-level earnings per share as set by the board. For the maximum available number of performance rights to vest, the group's earnings per share must increase in aggregate by at least 15% per annum over the three-year period from the base earnings per share. The threshold level of the group's earnings per share before vesting is an increase in aggregate of 5% per annum over the three-year period from the base earnings per share. A pro-rata vesting will occur between the 5% and 15% levels of earnings per share for the three-year period.

If achieved, performance rights are exercisable into the same number of ordinary shares in the company in the twelve-month period following the vesting date.

Details of vesting profiles of performance rights granted to executives are detailed below:

	Performance rights granted		Percentage vested in year	Percentage forfeited in year	Financial years in which shares will be issued if vesting achieved
	Number	Date			
Directors					
Mr D S McGurk	296,877	26 November 2014	100	–	2018
	236,948	25 November 2015	–	–	2019
	173,959	23 November 2016	–	–	2020
	124,524	10 November 2017	–	–	2021
Executives					
Mr M Barton	145,638	26 November 2014	100	–	2018
	120,709	25 May 2016	–	–	2019
	91,586	23 November 2016	–	–	2020
	65,559	8 December 2017	–	–	2021
Mr P D Charlesworth	193,250	26 November 2014	100	–	2018
	154,240	25 May 2016	–	–	2019
	113,237	23 November 2016	–	–	2020
	81,058	8 December 2017	–	–	2021
Mr R D Linehan	187,998	26 November 2014	100	–	2018
	154,240	25 May 2016	–	–	2019
	113,237	23 November 2016	–	–	2020
	79,469	8 December 2017	–	–	2021

In relation to the performance rights granted on 25 November 2015 and 25 May 2016, the performance requirements were based on cumulative annual compounding growth of the group's earnings per share over a three-year performance period, with a maximum earnings per share target of 28.35 cents per share. As the maximum earnings per share target has been exceeded to 30 June 2018, it is expected that the performance rights will vest and be converted into shares before the end of August 2018.

The movements during the reporting period in the number of performance rights over ordinary shares in Codan Limited, held directly, indirectly or beneficially by each key management person, including their related parties, is as follows:

	Held at 1 July 2017	Issued	Vested	Lapsed	Held at 30 June 2018
Directors					
Mr D S McGurk	707,784	124,524	296,877	–	535,431
Executives					
Mr M Barton	357,933	65,559	145,638	–	277,854
Mr P D Charlesworth	460,727	81,058	193,250	–	348,535
Mr R D Linehan	455,475	79,469	187,998	–	346,946

Other transactions with key management personnel

There have been no loans to key management personnel or their related parties during the financial year.

From time to time, directors and specified executives, or their personally related entities, may purchase goods from the group. These purchases occur within a normal employee relationship and are considered to be trivial in nature.

Movements in shares

The movement during the reporting period in the number of ordinary shares in Codan Limited, held directly, indirectly or beneficially by each key management person, including their related parties, is as follows:

	Held at 1 July 2017	Received on exercise of rights	Other changes *	Held at 30 June 2018
Directors				
Mr D J Simmons	86,636	–	–	86,636
Mr D S McGurk	312,517	296,877	–	609,394
Lt–Gen P F Leahy	57,708	–	–	57,708
Mr J W McDowell	–	–	–	–
Mr G R C Barclay	21,052	–	17,777	38,829
Ms K J Gramp	10,000	–	–	10,000
Specified executives				
Mr M Barton	5,000	145,638	–	150,638
Mr P D Charlesworth	287,790	193,250	(25,000)	456,040
Mr R D Linehan	135,825	187,998	(36,250)	287,573
Mr C P Stuff	–	–	–	–

** Other changes represent shares that were purchased or sold during the year*

Directors' Report (continued)

Remuneration Report – Audited (continued)

Directors' and senior executives' remuneration

Details of the nature and amount of each major element of the remuneration paid or payable to each director of the company and other key management personnel of the group are:

Directors	Year	Salary and fees $	Short–term incentives $	Other short term $	Post–employment and superannuation contributions $
Non–Executive					
Mr D J Simmons	**2018**	**175,908**	**–**	**–**	**16,711**
	2017	172,459	–	–	16,384
Lt–Gen P F Leahy	**2018**	**87,955**	**–**	**–**	**8,356**
	2017	86,230	–	–	8,192
Mr J W McDowell	**2018**	**87,955**	**–**	**–**	**8,356**
	2017	86,230	–	–	8,192
Mr G R C Barclay	**2018**	**87,955**	**–**	**–**	**8,356**
	2017	86,230	–	–	8,192
Ms K J Gramp	**2018**	**95,950**	**–**	**–**	**9,115**
	2017	94,069	–	–	8,936
Total non-executives' remuneration	**2018**	**535,723**	**–**	**–**	**50,894**
	2017	525,218	–	–	49,896
Executive					
Mr D S McGurk	**2018**	**528,369**	**385,453**	**–**	**20,049**
	2017	566,793	616,679	–	19,916
Total directors' remuneration	**2018**	**1,064,092**	**385,453**	**–**	**70,943**
	2017	1,092,011	616,679	–	69,812

Other long term	Termination benefits	Performance rights	Total	Proportion of remuneration performance related
$	$	$	$	%
–	**–**	**–**	**192,619**	**–**
–	–	–	188,843	–
–	**–**	**–**	**96,311**	**–**
–	–	–	94,422	–
–	**–**	**–**	**96,311**	**–**
–	–	–	94,422	–
–	**–**	**–**	**96,311**	**–**
–	–	–	94,422	–
–	**–**	**–**	**105,065**	**–**
–	–	–	103,005	–
–	**–**	**–**	**586,617**	**–**
–	–	–	575,114	–
8,326	**–**	**207,126**	**1,149,323**	**51.6**
16,174	–	197,282	1,416,844	57.4
8,326	**–**	**207,126**	**1,735,940**	**–**
16,174	–	197,282	1,991,958	–

Directors' Report (continued)

Remuneration Report – Audited (continued)

Directors' and senior executives' remuneration (continued)

Executive officers	Year	Salary and fees $	Short-term incentives $	Other short term $	Post-employment and superannuation contributions $
Mr M Barton (Chief Financial Officer and Company Secretary)	**2018**	**278,940**	**202,934**	**–**	**25,000**
	2017	270,871	324,670	–	25,580
Mr P D Charlesworth (Executive General Manager, Minelab & Codan Defence)	**2018**	**344,240**	**266,713**	**–**	**20,049**
	2017	349,883	437,449	–	19,916
Mr R D Linehan (Executive General Manager, Minetec)	**2018**	**374,614**	**198,982**	**64,500***	**–**
	2017	371,882	298,042	91,321*	–
Mr C P Stuff (Executive General Manager, Radio Communications)	**2018**	**361,124**	**129,657**	**2,382**	**–**
	2017	332,775	208,863	3,675	–
Total executive officers' remuneration	**2018**	**1,358,918**	**798,286**	**66,882**	**45,049**
	2017	1,325,411	1,269,024	94,996	45,496

** Other short-term benefits for Mr R D Linehan relate to costs incurred for arrangements made following his relocation from overseas to Australia.*

Executive officers outside of Australia are paid in their local currencies. The Australian dollar equivalents are calculated using average exchange rates.

Other long term $	Termination benefits $	Performance rights $	Total $	Proportion of remuneration performance related %
7,527	**–**	**121,381**	**635,782**	**51.0**
10,627	–	115,171	746,919	58.9
3,995	**–**	**152,236**	**787,233**	**53.2**
10,344	–	147,814	965,406	60.6
9,106	**–**	**151,649**	**798,851**	**43.9**
9,170	–	151,928	922,343	48.8
62,182	**–**	**–**	**555,345**	**23.3**
61,200	–	–	606,513	34.4
82,810	**–**	**425,266**	**2,777,211**	**–**
91,341	–	414,913	3,241,181	–

Short-term incentives which vested during the year are as follows: Mr D S McGurk 67% (33% forfeited), Mr M Barton 67% (33% forfeited), Mr P D Charlesworth 72% (28% forfeited), Mr R D Linehan 55% (45% forfeited) and Mr C P Stuff 34% (66% forfeited).

The remuneration amounts disclosed above have been calculated based on the expense to the company for the financial year. Therefore, items such as performance rights, annual leave and long service leave taken and provided for have been included in the calculations. As a result, the remuneration disclosed may not equal the salary package as agreed with the executive in any one year.

Other than performance rights, no options or shares were issued during the year as compensation for any key management personnel.

Corporate performance

As required by the *Corporations Act 2001*, the following information is presented:

	2018 $	2017 $	2016 $	2015 $	2014 $
Profit attributable to shareholders	**41,574,557**	43,514,938	15,494,607	12,507,609	9,196,580
Dividends paid	**19,593,194**	17,723,725	7,082,530	5,310,509	15,039,383
Share price at 30 June	**3.00**	2.34	1.18	1.15	0.75
Change in share price at 30 June	**0.66**	1.16	0.03	0.40	(0.77)

Directors' Report (continued)

Operating and Financial Review

Codan is a technology company that provides robust technology solutions that solve customers' communications, safety, security and productivity problems in some of the harshest environments around the world. Our customers include United Nations organisations, mining companies, security and military groups, government departments, major corporates as well as individual consumers and small-scale miners.

FY18 highlights:

- Underlying net profit after tax of $39.8 million
- Statutory net profit after tax of $41.5 million
- Annual dividend of 8.5 cents, fully franked (interim 4.0, final 4.5)
- Special dividend of 4.0 cents, fully franked
- Underlying earnings per share of 22.1 cents
- Broadening the earnings base, reduced reliance on GPZ 7000®
- Base-business sales increased to $180-200 million, up from $160-180 million
- Base-business NPAT increased to $25-30 million, up from $20-25 million
- Strong balance sheet – $28 million net cash

The company delivered another strong year, driven by gold detector sales into Africa, spread across the entire Minelab gold detector range. Codan continues to enter new markets and develop world-class, robust technology for our customers across more than 150 countries.

The company remains focused on increasing and broadening its earnings base in order to diversify the business and reduce volatility. To that end, in FY18 we:

- significantly diversified our gold detector sales in Africa so that we are no longer heavily reliant on one product in this market;
- released the revolutionary new EQUINOX® coin & treasure detector, increasing our base business sales into the developed world;
- signed a joint development and marketing agreement with Caterpillar Inc. to integrate Minetec's proprietary products into an expanded Caterpillar Minestar® solution for underground mines; and
- continued to expand our High Frequency (HF) military offering with the release of the Sentry-H™ Military Radio in order to broaden our addressable market.

These initiatives demonstrate our continuing progress to transform Codan into a more diversified, solutions-based business with more stable revenues at high margins.

Given the success of these initiatives, we are confident that Codan's base-business sales have increased to $180-200 million, delivering NPAT of $25-30 million, a 20% increase.

Dividend

The company announced a final dividend of 4.5 cents per share, fully franked, bringing the full-year dividend to 8.5 cents. The dividend has a record date of 3 September 2018 and will be paid on 14 September 2018.

In recognition of the continuing outperformance of the company, the company also announced a special dividend of 4.0 cents per share, fully franked. The special dividend has a record date of 3 September 2018 and will be paid on 14 September.

Financial performance and other matters

	FY18 $m	FY18 % of sales	FY17 $m	FY17 % of sales
Revenue				
Communications	**56.5**	**25%**	70.9	31%
Metal detection	**164.0**	**71%**	148.0	66%
Tracking solutions	**9.4**	**4%**	7.2	3%
Total revenue	**229.9**	**100%**	226.1	100%
Underlying business performance				
EBITDA	**70.4**	**31%**	75.6	33%
EBIT	**53.7**	**23%**	61.5	27%
Interest	**(0.5)**		(0.8)	
Net profit before tax	**53.2**	**23%**	60.7	27%
Taxation	**(13.4)**		(16.0)	
Underlying net profit after tax	**39.8**	**17%**	44.7	20%
Non-underlying income/(expenses) after tax:*				
Newton property tax benefit/impairment	**1.7**		(1.2)	
Net profit after tax	**41.5**		43.5	
Underlying earnings per share, fully diluted	**22.1 cents**		24.9 cents	
Statutory earnings per share, fully diluted	**23.1 cents**		24.2 cents	
Ordinary dividend per share	**8.5 cents**		7.0 cents	
Special dividend per share	**4.0 cents**		6.0 cents	

** Non-underlying income/(expenses) are considered to be outside of normal business activities of the group and for comparability reasons have been separately identified. The methodology of identifying and quantifying these items is consistently applied from year to year. Underlying profit is a non-IFRS measure used by management of the company to assess the operating performance of the business. The non-IFRS measures have not been subject to audit.*

EBITDA and EBIT margins decreased slightly due to the change in sales mix for metal detection products into Africa.

Continuing strong cash generation resulted in a net cash position of $28 million at 30 June 2018.

Directors' Report (continued)

Operating and Financial Review (continued)

Financial performance and other matters (continued)

PERFORMANCE BY BUSINESS UNIT:

Radio Communications – High Frequency (HF) Radios and Land Mobile Radios (LMR)

Radio Communications designs and manufactures communications equipment for HF and LMR applications. Its solutions allow customers to save lives, enhance security and support peacekeeping activities worldwide. This division has base-business sales in the range of $65 million to $75 million per annum, with large HF projects potentially taking us to the top of this range.

Radio Communications missed out on delivering some large HF projects before year-end, and LMR sales were impacted by a slowdown in US-Government spending. As a result, revenue decreased to $56.5 million, delivering segment contribution of $6.8 million for the year.

The HF division is targeting the global military market, with a focus on developing world militaries in Africa, the Middle East, Asia, Eastern Europe and Latin America. This will enable us to leverage our successful sales strategy in Afghanistan and expand to other countries utilising the US-Government-funded Foreign Military Sales (FMS) vehicle.

During FY18, we upgraded the features of our Sentry-H™ military radio and delivered our first substantial order. We maintained our position as the dominant HF supplier to aid and humanitarian organisations by supporting their in-country missions. We continue to conduct business development activities with a number of complementary third-party solution providers in order to supplement our customer offerings.

As previously announced, in August 2017 Radio Communications secured its first significant end-to-end LMR solution sale, with a US$4.3 million order from RiverCom 911 in Washington State. This order was successfully delivered during FY18, providing a critical reference for future LMR solutions sales in North America.

We remain optimistic about the medium to long-term growth potential in LMR and, as such, continue to invest in the development of the Cascade™ LMR platform. We expect to see sales growth from this investment during FY20 as we release new software features, upskill our sales team and develop new routes to market.

The Radio Communications division has strong order book entering FY19 and is well positioned on a number of potential large projects. Our expectation is that Radio Communications will deliver FY19 sales in line with our base-business range.

Metal Detection – Recreational, Gold Mining and Countermine

Minelab is the world leader in handheld metal detecting technologies for recreational, gold mining and demining markets. Over the past 30 years, Minelab has introduced more innovative technology than any of its competitors and has taken the metal detection industry to new levels of technological excellence.

Minelab's base business is comprised of recreational products sold into Australia, Europe and the USA, a level of gold detector sales into Africa, Asia Pacific and Latin America and sales of countermine products (detecting and clearing improvised explosive devices) globally. In the past, Minelab has had base-business sales in the range of $85 million to $95 million per annum. The EQUINOX® coin and treasure product release, coupled with an expanded gold detector range and Minelab's entry into new markets, has increased the base business to around $110 million per annum.

As was the case in FY18, periods of stronger demand for gold detectors in Africa and new product introductions can push these revenues significantly higher.

Minelab had another exceptionally strong year at $164 million sales, delivering segment contribution of $64 million. While sales of our GPZ 7000® top-of-the-range gold detector remain strong, they are being complemented by significantly higher sales of the new Gold Monster® and SDC 2300® detectors in Africa.

African demand continues to be driven by the superior performance of our products rather than gold surges. Existing customers are upgrading their GPX® gold detecting equipment, and new customers are buying the entry-level Gold Monster®. It has also been pleasing to see a resurgence in demand for the SDC 2300®, a detector that is exceptionally good at discovering fine-particle gold. This changing sales mix has further diversified the business but has resulted in lower average margins for our gold detector products in Africa.

In Minelab's established recreational markets outside Africa, the EQUINOX® detector, released in February 2018, is taking significant market share from competitors as customers discover how easy it is to become a metal detecting expert overnight and find more treasure than ever before.

Minelab delivered a significant order for the countermine F3 Compact™ detector to a country in Latin America. We won this competitive tender on the reliability and performance of our countermine technology which we are further developing in partnership with the Australian government to create a new dual-sensing countermine detector, to be released in late FY19.

We are confident of continued success in FY19.

Tracking Solutions – Minetec

Minetec provides unique, high-precision tracking, productivity and safety solutions for underground hard-rock mines. Minetec's technology enables real-time monitoring and control of mining operations, which allow miners to visualise the whole mine in order to optimise productivity and enhance safety.

During FY18, Minetec achieved a number of critical milestones to commercialise its technology and put distribution in place to scale the business.

In February 2018, Minetec entered into a global licensing, technology development and marketing agreement with Caterpillar Inc. Under the terms of this agreement, Caterpillar and Minetec have begun integrating Minetec's high-precision tracking capability into an expanded Caterpillar Minestar® underground solution for hard-rock mines. The combined solution will be taken to market under the Caterpillar brand through the Caterpillar global dealer network.

In March 2018, Minetec won a contract to provide a non-GPS, surface-mining proximity detection system to the Boliden Kevitsa mine in Northern Finland. The Minetec solution was proven to be more accurate and lower cost than traditional GPS-based solutions. Many surface miners are seeking a solution that is not reliant on GPS, and Minetec is well positioned to meet this need.

In May 2018, Minetec secured a $9.5 million contract to supply the Fleet Management system to BHP's Olympic Dam mine in South Australia. This followed a highly competitive global tender process and is separate from the Caterpillar agreement. It is the largest contract won by Minetec under Codan's ownership and validates the leading position of the division's proximity-detection, tracking and task-management solutions.

Management are targeting revenues of $15 million for Minetec in FY19 and have the objective of doubling the size of this business in the next few years.

During FY19, we will integrate Minetec's technology with Caterpillar's Minestar® system and launch the improved solution through Caterpillar's extensive sales and dealer network.

Minetec delivered a small operating profit in FY18 and, while we expect a better result for the division in FY19, it is not expected to be material to Codan. We will continue to invest in further development of the core technology, integrating Minetec's products into Minestar® and educating the Caterpillar distribution network.

Codan Defence Electronics

Codan Defence Electronics offers high-level design and adaptation, advanced manufacturing, training and through-life support to the Australian defence industry.

While we are yet to win significant orders, we continue to build strong customer relations and an extensive pipeline of future opportunities. Defence contracts have long sales cycles and, as a result, we have not planned for any significant revenue in FY19.

Outlook

As a result of the strategic initiatives discussed above, we have succeeded in growing Codan's base business to sales of $180 million to $200 million and NPAT of $25 million to $30 million.

Codan has the ability to sometimes surprise on the upside as a result of increased demand for gold detectors and large project wins in our Radio Communications division, both of which are difficult to predict. The board and management remain committed to maximising these opportunities while continuing to grow the company's base business.

The Board intends to provide a further business update at the Annual General Meeting in October, when trading results for the first quarter will be known.

Directors' Report (continued)

Dividends

Dividends paid or declared by the company to members since the end of the previous financial year were:

	Cents per share	Total amount $000	Franked	Date of payment
Declared and paid during the year ended 30 June 2018:				
FY17 final ordinary	4.0	7,125	100%	3 October 2017
FY17 final special	3.0	5,343	100%	3 October 2017
FY18 interim ordinary	4.0	7,125	100%	3 April 2018
Declared after the end of the year:				
FY18 final ordinary	4.5	8,019	100%	14 September 2018
FY18 final special	4.0	7,128	100%	14 September 2018

All dividends paid or declared by the company since the end of the previous financial year were fully franked.

Events subsequent to reporting date

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the company, to affect significantly the operations of the group, the results of those operations, or the state of affairs of the group, in future financial years.

Likely developments

The group will continue with its strategy of continuing to invest in new product development and to seek opportunities to further strengthen profitability by expanding into related businesses offering complementary products and technologies.

Further information about likely developments in the operations of the group and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the group.

Directors' interests

The relevant interest of each director in the shares issued by the company as notified by the directors to the Australian Securities Exchange in accordance with S205G(1) of the *Corporations Act 2001*, at the date of this report is as follows:

	Ordinary shares
Mr D J Simmons	86,636
Mr D S McGurk	609,394
Lt-Gen P F Leahy	57,708
Mr J W McDowell	–
Mr G R C Barclay	38,829
Ms K J Gramp	10,000

Indemnification and insurance of officers

Indemnification

The company has agreed to indemnify the current and former directors and officers of the company and certain controlled entities against all liabilities to another person (other than the company or a related body corporate) that may arise from their position as directors and secretaries of the company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The Deed of Access, Indemnity and Insurance stipulates that the company and certain controlled entities will meet the full amount of any such liabilities, including costs and expenses.

Insurance premiums

The directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors' and officers' liability and legal expenses insurance contracts, as such disclosure is prohibited under the terms of the contract.

Non-audit services

During the year, KPMG, the company's auditor, has performed certain other services in addition to their statutory duties.

The board has considered the non-audit services provided during the year by the auditor and is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the company and have been reviewed by the Board Audit, Risk and Compliance Committee to ensure that they do not have an impact on the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as an advocate for the company or jointly sharing risks and rewards.

Refer page 50 for a copy of the auditor's independence declaration as required under Section 307C of the *Corporations Act 2001*.

Details of the amounts paid or payable to the auditor of the company, KPMG, and its related practices for audit and non-audit services provided during the year are as follows:

	Consolidated	
	2018 **$**	**2017** **$**
Statutory Audit		
Audit and review of financial reports (KPMG Australia)	**204,874**	195,651
Audit of financial reports (overseas KPMG firms)	**–**	–
	204,874	195,651
Services Other Than Statutory Audit		
Taxation compliance services (KPMG Australia)	**56,760**	62,100
Taxation compliance services (overseas KPMG firms)	**27,220**	186,627
Corporate finance services	**32,591**	35,290
	116,571	284,017

Rounding off

The company is of a kind referred to in *ASIC Legislative Instrument 2016/191* dated 1 April 2016 and, in accordance with that Legislative Instrument, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

This report is made with a resolution of the directors:

D J Simmons
Director

D S McGurk
Director

Dated at Mawson Lakes this 23rd day of August 2018.

Lead auditor's independence declaration

under Section 307c of the *Corporations Act 2001*

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Codan Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Codan Limited for the financial year ended 30 June 2018 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Paul Cenko
Partner

Adelaide

23 August 2018

Consolidated income statement

for the year ended 30 June 2018

	Note	Consolidated 2018 $000	2017 $000
Continuing operations			
Revenue	2	**229,914**	226,095
Cost of sales		**(98,209)**	(89,874)
Gross profit		**131,705**	136,221
Administrative expenses		**(19,295)**	(21,677)
Sales and marketing expenses		**(37,976)**	(35,169)
Engineering expenses		**(20,360)**	(17,280)
Net financing costs	3	**(730)**	(894)
Other (expenses)/income	4	**(152)**	(1,718)
Profit before tax		**53,192**	59,483
Income tax expense	7	**(11,644)**	(15,970)
Profit for the period		**41,548**	**43,513**
Attributable to:			
Equity holders of the company		**41,575**	43,515
Non-controlling interests		**(27)**	(2)
		41,548	43,513
Earnings per share for profit attributable to the ordinary equity holders of the company:			
Basic earnings per share	6	**23.4 cents**	24.6 cents
Diluted earnings per share	6	**23.1 cents**	24.2 cents

The consolidated income statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 56 to 90.

Consolidated statement of comprehensive income

for the year ended 30 June 2018

	Note	Consolidated 2018 $000	2017 $000
Profit for the period		**41,548**	43,513
Items that may be reclassified subsequently to profit or loss			
Changes in fair value of cash flow hedges		**(1,170)**	719
less tax effect		**351**	(216)
Changes in fair value of cash flow hedges, net of income tax	21	**(819)**	503
Exchange differences on translation of foreign operations	21	**954**	(1,542)
Other comprehensive income/(loss) for the period, net of income tax		**135**	(1,039)
Total comprehensive income for the period		**41,683**	42,474
Attributable to:			
Equity holders of the company		**41,710**	42,476
Non-controlling interests		**(27)**	(2)
		41,683	42,474

The consolidated statement of comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 56 to 90.

Consolidated balance sheet

as at 30 June 2018

		Consolidated	
	Note	2018 $000	2017 $000
Current assets			
Cash and cash equivalents	8	**27,711**	21,421
Trade and other receivables	11	**29,784**	20,557
Inventory	12	**31,588**	31,027
Current tax assets	7	**91**	47
Assets held for sale	14	**3,750**	3,750
Other assets	13	**2,474**	3,493
Total current assets		**95,398**	80,295
Non-current assets			
Property, plant and equipment	15	**12,489**	11,985
Product development	16	**59,830**	54,189
Intangible assets	17	**86,585**	86,206
Total non-current assets		**158,904**	152,380
Total assets		**254,302**	232,675
Current liabilities			
Trade and other payables	18	**46,346**	36,619
Current tax payable	7	**6,057**	16,136
Provisions	19	**7,299**	7,167
Total current liabilities		**59,702**	59,922
Non-current liabilities			
Deferred tax liabilities	7	**5,994**	7,237
Provisions	19	**541**	521
Total non-current liabilities		**6,535**	7,758
Total liabilities		**66,237**	67,680
Net assets		**188,065**	164,995
Equity			
Share capital	20	**42,721**	43,928
Reserves	21	**64,326**	62,004
Retained earnings		**81,018**	59,063
Total equity		**188,065**	164,995
Total equity attributable to the equity holders of the company		**188,184**	165,087
Non-controlling interests		**(119)**	(92)
		188,065	164,995

The consolidated balance sheet is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 56 to 90.

Consolidated statement of changes in equity

for the year ended 30 June 2018

	Consolidated						
2018	**Share capital $000**	**Foreign currency translation reserve $000**	**Hedging reserve $000**	**Equity based payment reserve $000**	**Profit reserve $000**	**Retained earnings $000**	**Total $000**
Balance as at 1 July 2017	**43,928**	**2,634**	**389**	**–**	**58,981**	**59,063**	**164,995**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**41,548**	**41,548**
Performance rights expensed	**–**	**–**	**–**	**774**	**–**	**–**	**774**
Change in fair value of cash flow hedges	**–**	**–**	**(819)**	**–**	**–**	**–**	**(819)**
Exchange differences on translation of foreign operations	**–**	**954**	**–**	**–**	**–**	**–**	**954**
Transfers to and from reserves	**(1,954)**	**–**	**–**	**1,954**	**–**	**–**	**–**
	41,974	**3,588**	**(430)**	**2,728**	**58,981**	**100,611**	**207,452**
Transactions with owners of the company							
Dividends recognised during the period	**–**	**–**	**–**	**–**	**–**	**(19,593)**	**(19,593)**
Issue of share capital through performance rights	**541**	**–**	**–**	**(541)**	**–**	**–**	**–**
Employee share plan, net of issue costs	**206**	**–**	**–**	**–**	**–**	**–**	**206**
	747	**–**	**–**	**(541)**	**–**	**(19,593)**	**(19,387)**
Balance at 30 June 2018	**42,721**	**3,588**	**(430)**	**2,187**	**58,981**	**81,018**	**188,065**

2017	**Share capital $000**	**Foreign currency translation reserve $000**	**Hedging reserve $000**	**Equity based payment reserve $000**	**Profit reserve $000**	**Retained earnings $000**	**Total $000**
Balance as at 1 July 2016	42,605	4,176	(114)	–	58,981	33,274	138,922
Profit for the period	–	–	–	–	–	43,513	43,513
Performance rights expensed	1,137	–	–	–	–	–	1,137
Change in fair value of cash flow hedges	–	–	503	–	–	–	503
Exchange differences on translation of foreign operations	–	(1,542)	–	–	–	–	(1,542)
	43,742	2,634	389	–	58,981	76,787	182,533
Transactions with owners of the company							
Dividends recognised during the period	–	–	–	–	–	(17,724)	(17,724)
Employee share plan, net of issue costs	186	–	–	–	–	–	186
	186	–	–	–	–	(17,724)	(17,538)
Balance at 30 June 2017	43,928	2,634	389	–	58,981	59,063	164,995

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 56 to 90.

Consolidated statement of cash flows

for the year ended 30 June 2018

		Consolidated	
	Note	2018 $000	2017 $000
Cash flows from operating activities			
Cash receipts from customers		**231,096**	230,959
Cash paid to suppliers and employees		**(159,759)**	(153,059)
Interest received		**94**	80
Interest paid		**(597)**	(874)
Income taxes paid (net)		**(22,616)**	(1,526)
Net cash from operating activities	10	**48,218**	75,580
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment		**16**	4
Payments for capitalised product development		**(16,543)**	(16,418)
Payments for intellectual property		**(2,029)**	(2,905)
Acquisition of property, plant and equipment		**(3,427)**	(4,064)
Acquisition of intangibles (computer software and licences)		**(470)**	(277)
Net cash used in investing activities		**(22,453)**	(23,660)
Cash flows from financing activities			
Drawdowns/(repayments) of borrowings		**–**	(26,935)
Dividends paid		**(19,593)**	(17,724)
Net cash provided by/(used in) financing activities		**(19,593)**	(44,659)
Net increase/(decrease) in cash held		**6,172**	7,261
Cash and cash equivalents at the beginning of the financial year		**21,421**	14,333
Effects of exchange rate fluctuations on cash held		**118**	(173)
Cash and cash equivalents at the end of the financial year	8	**27,711**	21,421

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 56 to 90.

Notes to and forming part of the financial statements

for the year ended 30 June 2018

1. Significant Accounting Policies

Codan Limited (the "company") is a company domiciled in Australia and is a for-profit entity. The consolidated financial report of the company as at and for the year ended 30 June 2018 comprises the company and its subsidiaries (together referred to as the "group" and individually as "group entities"). The financial report was authorised for issue by the directors on 23 August 2018.

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board ("AASB") and the *Corporations Act 2001*.

The consolidated financial report of the group complies with International Financial Reporting Standards (IFRSs) adopted by the International Accounting Standards Board (IASB).

(b) Basis of preparation

The consolidated financial report is prepared in Australian dollars (the company's functional currency and the functional currency of the majority of the group) on the historical costs basis except that derivative financial instruments are stated at their fair value.

The group is of a kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* and, in accordance with that Legislative Instrument, amounts in the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Use of estimates and judgements

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year relate to impairment assessments of non-current assets, including product development and goodwill (refer note 17).

Changes in accounting policies

For the year ended 30 June 2018, the group has not changed any of its significant accounting policies.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by group entities.

(c) Basis of consolidation

Subsidiaries are entities controlled by the group. Control exists when the group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date control commences until the date control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the group.

Unrealised gains and losses and inter-entity balances resulting from transactions with or between subsidiaries are eliminated in full on consolidation.

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the group. Transaction costs, other than those associated with the issue of debt or equity securities, that the group incurs in connection with a business combination are expensed as incurred.

Upon the loss of control, the group derecognises the assets and liabilities of the subsidiary, and non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in the income statement.

Non-controlling interests are measured at their proportionate share of the subsidiaries' net assets.

(d) Revenue recognition

Revenues are recognised at the fair value of the consideration received or receivable, net of the amount of goods and services tax (GST) payable to taxation authorities.

Sale of goods

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable (net of rebates, returns, discounts and other allowances). Revenue is recognised when the significant risks and rewards of ownership pass to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably. Control usually passes when the goods are shipped to the customer.

Construction contracts

Contract revenue includes the initial amount agreed in the contract, plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue is recognised in the income statement in proportion to the stage of completion of the contract. Contract expenses are recognised as incurred unless they create an asset related to future contract activity.

The stage of completion is assessed by reference to professional judgement of work performed. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognised immediately in the income statement.

Rendering of services

Revenue from rendering services is recognised in the period in which the service is provided.

(e) Expenses

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense and are spread over the lease term.

Net financing costs

Net financing costs include interest paid relating to borrowings, interest received on funds invested, unwinding of discounts, foreign exchange gains and losses, and gains and losses on hedging instruments that are recognised in the income statement. Qualifying assets are assets that take more than 12 months to get ready for their intended use or sale. In these circumstances, borrowing costs are capitalised to the cost of the qualifying assets. Interest income and borrowing costs are recognised in the income statement on an accruals basis, using the effective-interest method. Foreign currency gains and losses are reported on a net basis.

(f) Foreign currency

Foreign currency transactions are translated to Australian dollars at the rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement, except for differences arising on the retranslation of a financial liability designated as a hedge of a net investment in a foreign operation, or qualifying cash flow hedges, which are recognised in other comprehensive income and presented within equity, to the extent that the hedge is effective.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair-value adjustments arising on acquisition, are translated to Australian dollars at the foreign exchange rates ruling at the reporting date. Equity items are translated at historical rates. The income and expenses of foreign operations are translated to Australian dollars at the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on translation are taken directly to the foreign currency translation reserve until the disposal, or partial disposal, of the foreign operations.

Notes to and forming part of the financial statements
for the year ended 30 June 2018 (continued)

1. Significant Accounting Policies (continued)

(f) Foreign currency (continued)

Foreign operations (continued)

Foreign exchange gains and losses arising from a monetary item receivable or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and on consolidation they are recognised in other comprehensive income, and are presented within equity in the foreign currency translation reserve.

Foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment in a foreign operation are recognised directly in other comprehensive income to the extent that the hedge is effective, and are presented within equity in the hedging reserve. To the extent that the hedge is ineffective, such differences are recognised in the income statement. When the hedged part of a net investment is disposed of, the associated cumulative amount in equity is transferred to the income statement as an adjustment to the income statement on disposal.

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in comprehensive income and presented within equity. When the forecast transaction subsequently results in the recognition of a financial asset or liability, then the associated gains and losses that were recognised directly in equity are reclassified into the income statement.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, then the unrealised gain or loss recognised in equity is recognised immediately in the income statement.

(g) Derivative financial instruments

The group has used derivative financial instruments to hedge its exposure to foreign exchange and interest rate movements. In accordance with its policy, the group does not hold derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments. Derivative financial instruments are recognised initially at fair value. Attributable transaction costs are recognised in the income statement when incurred. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on re-measurement to fair value is recognised immediately in the income statement unless the derivative qualifies for hedge accounting.

Hedging

On initial designation of the hedge, the group formally documents the relationship between the hedging instrument and hedged item, including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship.

(h) Taxation

Income tax expense on the income statement comprises a current and deferred tax expense. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, or in other comprehensive income.

Current tax expense is the expected tax payable on the taxable income for the year using tax rates enacted or substantially enacted at the reporting date, adjusted for any prior year under or over provision. The movement in deferred tax assets and liabilities results in a deferred tax expense, unless the movement results from a business combination, in which case the tax entry is recognised in goodwill, or a transaction has impacted equity, in which case the tax entry is also reflected in equity.

Deferred tax assets and liabilities arise from temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle the tax liabilities and assets on a net basis, or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Tax consolidation

The company is the head entity in the tax-consolidated group comprising all the Australian wholly owned subsidiaries. The company recognises the current tax liability of the tax-consolidated group. The tax-consolidated group has determined that subsidiaries will account for deferred tax balances and will make contributions to the head entity for the current tax liabilities as if the subsidiary prepared its tax calculation on a stand-alone basis.

The company recognises deferred tax assets arising from unused tax losses of the tax consolidated group to the extent that it is probable that future taxable profits of the tax consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses, as a result of revised assessments of the probability of recoverability, are recognised by the head entity only.

(i) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or is expensed.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recovered from, or payable to, the ATO are classified as operating cash flows.

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less. Bank overdrafts form an integral part of the group's cash management and are included as a component of cash and cash equivalents for the purpose of the Statement of Cash Flows.

(k) Trade and other receivables

Trade debtors are to be settled within agreed trading terms, typically less than 60 days, and are initially recognised at fair value and then subsequently at amortised cost, less any impairment losses. Impairment of receivables is not recognised until objective evidence is available that a loss event may occur. Significant receivables are individually assessed for impairment. Non-significant receivables are not individually assessed; instead, impairment testing is performed by considering the risk profile of that group of receivables. All impairment losses are recognised in the income statement.

(l) Inventories

Raw materials and stores, work in progress and finished goods are measured at the lower of cost (determined on a first-in first-out basis) and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. In the case of manufactured inventories and work in progress, costs comprise direct materials, direct labour, other direct variable costs and allocated factory overheads necessary to bring the inventories to their present location and condition.

(m) Project work in progress

Project work in progress represents the gross unbilled amount expected to be collected from customers for project work performed to date. It is measured at cost, plus profit recognised to date, less progress billings and recognised losses. Cost includes all expenditure related directly to specific projects. Project work in progress is presented as part of other assets in the balance sheet for all projects in which costs incurred, plus recognised profits, exceed progress billings.

Notes to and forming part of the financial statements
for the year ended 30 June 2018 (continued)

1. Significant Accounting Policies (continued)

(n) Intangible assets

Product development costs

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense when incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products, is capitalised only if development costs can be measured reliably, the product is technically and commercially feasible, future economic benefits are probable and the group intends to, and has sufficient resources to, complete development and to use or sell the asset.

The expenditure capitalised has a finite useful life and includes the cost of materials, direct labour and an appropriate proportion of overheads that are directly attributable to preparing the asset for its intended use, less accumulated amortisation and accumulated impairment losses. Other development expenditure is recognised in the income statement when incurred.

Goodwill

All business combinations are accounted for by applying the acquisition method, and goodwill may arise upon the acquisition of subsidiaries. Goodwill is stated at cost, less any accumulated impairment losses, and has an indefinite useful life. It is allocated to cash-generating units and is not amortised but is tested annually for impairment.

Measuring goodwill

The group measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired (including intangible assets) and liabilities assumed, all measured as of the acquisition date.

Consideration transferred includes the fair values of the assets transferred, liabilities incurred by the group to the previous owners of the acquiree, and equity interests issued by the group. Consideration transferred also includes the fair value of any contingent consideration and share-based payment awards of the company.

Contingent liabilities

A contingent liability of the acquiree is assumed in a business combination only if such a liability represents a present obligation and arises from a past event, and its fair value can be measured reliably.

Non-controlling interest

The group measures any non-controlling interest at its proportionate interest in the identifiable net assets of the acquiree.

Transaction costs

Transaction costs that the group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, are expensed as incurred.

Licences and other intangible assets

Licences and other intangible assets that are acquired by the group, which have finite useful lives, are stated at cost, less accumulated amortisation and accumulated impairment losses. Expenditure on internally generated goodwill and brands is recognised in the income statement as incurred.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the income statement as incurred.

Amortisation

Amortisation is calculated on the cost of the asset, less its residual value.

Amortisation is charged to the income statement on either a straight-line or units of production basis. Intangible assets are amortised over their estimated useful lives from the date that they are available for use, but goodwill is only written down if there is an impairment. The estimated useful lives in the current and comparative periods are as follows:

	Straight-line	Units of production
Product development, licences and intellectual property:	2 - 15 years	5 - 10 years
Computer software:	3 - 7 years	Not applicable

Amortisation methods, useful lives and residual values are reviewed at each reporting date.

Change in estimates

During the year ended 30 June 2018, the group conducted a review, which resulted in a change in the amortisation method from straight-line to units of production in order to better reflect the pattern in which the assets' future economic benefits are expected to be consumed. This did not have a material impact.

(o) Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets are generally measured at the lower of their carrying amount and fair value less costs to sell. Once classified as held-for-sale, intangible assets and property, plant and equipment are no longer amortised or depreciated.

(p) Property, plant and equipment

Owned assets

Items of property, plant and equipment are measured at cost, less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour and any other costs directly attributable to bringing the asset to a working condition for its intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Land and buildings that had been revalued to fair value prior to the transition to AIFRS, being 1 July 2004, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income" or "other expenses" in the income statement.

Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

Depreciation

Depreciation is calculated on the depreciable amount, which is the cost of an asset, less its residual value.

Depreciation is charged to the income statement on property, plant and equipment on a straight-line basis over the estimated useful life of the assets. Capitalised leased assets are amortised on a straight-line basis over the term of the relevant lease, or where it is likely the group will obtain ownership of the asset, the life of the asset. Land is not depreciated. The main depreciation rates used for each class of asset for current and comparative periods are as follows:

Leasehold property	6% to 10%
Plant and equipment	7% to 40%

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(q) Impairment

The carrying amounts of the group's assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. If any such impairment exists, the asset's recoverable amount is estimated.

For goodwill and intangible assets that have an indefinite useful life or are not yet available for use, the recoverable amount is estimated annually.

The recoverable amount of assets is the greater of their fair value, less costs of disposal and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Notes to and forming part of the financial statements
for the year ended 30 June 2018 (continued)

1. Significant Accounting Policies (continued)

(q) Impairment (continued)

The group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the cash-generating units to which the corporate asset belongs.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash inflows that are largely independent from other assets or groups of assets. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill and then to reduce the carrying amount of the other assets in the cash-generating unit on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimate used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(r) Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received. Trade accounts payable are normally settled within 60 days.

(s) Interest bearing borrowings

Interest bearing borrowings are recognised initially at their fair value, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost, with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective-interest basis.

(t) Employee benefits

Wages, salaries and annual leave

Liabilities for employee benefits for wages, salaries, incentives and annual leave represent present obligations resulting from employees' services provided to the reporting date, calculated at undiscounted amounts based on remuneration rates that the group expects to pay as at the reporting date, including related on-costs such as workers' compensation insurance and payroll tax.

Long service leave

The provision for employee benefits for long service leave represents the present value of the estimated future cash outflows resulting from the employees' services provided to the reporting date. The provision is calculated using expected future increases in wage and salary rates, including related on-costs, and expected settlement dates based on turnover history, and is discounted using high-quality corporate bond rates at the reporting date which most closely match the terms of maturity of the related liabilities.

Defined contribution superannuation plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. The group contributes to defined contribution superannuation plans and these contributions are expensed in the income statement as incurred.

(u) Provisions

A provision is recognised when there is a present legal or constructive obligation as a result of a past event, it can be estimated reliably and it is probable that a future sacrifice of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows required to settle the obligation at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

Dividends

A provision for dividends payable is recognised in the reporting period in which the dividends are declared.

Restructuring and employee termination benefits

A provision for restructuring is recognised when the group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

Warranty

A provision is made for the group's estimated liability on all products sold and still under warranty, and includes claims already received. The estimate is based on the group's warranty cost experience over previous years.

(v) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(w) Share-based payment transactions

Share-based payments in which the group receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained from the group.

The grant-date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards which vest.

(x) Future Australian Accounting Standards requirements

A number of new standards, amendments to standards and interpretations, effective for annual periods beginning after 1 July 2018, were available for early adoption, but have not been applied in preparing these consolidated financial statements.

AASB 9 *Financial Instruments* – The company has completed an assessment of the impact of the standard on the company's results, financial position and disclosures and has determined that it will not have a material impact. The standard will be effective for the company's financial report for the year ended 30 June 2019, with early adoption permitted. The company does not, however, intend to adopt this new standard before the mandatory effective date.

AASB 15 *Revenue from Contracts with Customers* – The company has completed an assessment of the impact of the standard on the company's results, financial position and disclosures and has determined that it will not have a material impact. The standard will be effective for the company's financial report for the year ended 30 June 2019, with early adoption permitted. The company does not, however, intend to adopt this new standard before the mandatory effective date.

AASB 16 *Leases* – The company has completed an initial assessment of the potential impact on its consolidated financial statements but has not yet completed its detailed assessment. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, including the company's borrowing rate at 1 July 2019, the composition of the company's lease portfolio at that date, the company's latest assessment of whether it will exercise any lease renewal options and the extent to which the company chooses to use practical expedients and recognition exemptions. An impact from this standard is that the company will recognise new assets and liabilities from its operating leases. As at 30 June 2018, the company's future minimum lease payments under non-cancellable operating leases exceeded $42 million, on an undiscounted basis (see note 27(ii)).

Notes to and forming part of the financial statements
for the year ended 30 June 2018 (continued)

GROUP PERFORMANCE

2. Segment activities

The group determines and presents operating segments based on the information that is internally provided to the CEO, who is the group's chief operating decision-maker.

An operating segment is a component of the group that engages in business activities from which it may earn revenues and incur expenses. All operating segments' results are regularly reviewed by the group's CEO, to make decisions about resources to be allocated to the segments and assess their performance.

Segment results relate to the underlying operations of a segment and are as reported to the CEO, and include the expense from functions that are directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the company's headquarters and cash balances), corporate expenses, non-underlying other income and expense, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

The group's primary format for segment reporting is based on business segments.

Business segments

Two or more operating segments may be aggregated into a single operating segment if they are similar in nature. The group comprises three business segments. The communications equipment segment includes the design, development, manufacture and marketing of communications equipment. The metal detection segment includes the design, development, manufacture and marketing of metal detection equipment. Lastly, the tracking solutions segment includes the design, manufacture, maintenance and support of a range of electronic products and associated software for the mining sector.

Geographical segments

In presenting information on the basis of geographical segments, segment revenue has been based on the geographic location of the invoiced customer. Segment assets are based on the geographic location of the assets. The group has manufacturing and corporate offices in Australia and Canada, with overseas representative offices in the United States of America, United Arab Emirates, South Africa, Brazil and Ireland.

Information about reportable segments	Communications		Metal detection		Tracking solutions		Consolidated	
	2018 $000	2017 $000	2018 $000	2017 $000	2018 $000	2017 $000	2018 $000	2017 $000
Revenue								
External segment revenue	**56,525**	70,922	**164,039**	147,957	**9,350**	7,216	**229,914**	226,095
Result								
Segment result	**6,763**	19,947	**64,064**	61,524	**706**	330	**71,533**	81,801
Impairment							**–**	(1,219)
Net financing cost							**(730)**	(894)
Unallocated income and expenses							**(17,611)**	(20,205)
Profit from operating activities							**53,192**	59,483
Income tax expense							**(11,644)**	(15,970)
Net Profit							**41,548**	43,513
Non-cash items included above								
Depreciation and amortisation	**7,076**	5,311	**8,485**	7,768	**606**	410	**16,167**	13,489
Unallocated depreciation and amortisation							**494**	576
Impairment							**–**	1,219
Total depreciation, amortisation and impairment							**16,661**	15,284
Assets								
Capital expenditure	**838**	2,077	**1,310**	1,339	**354**	196	**2,502**	3,612
Unallocated capital expenditure							**925**	452
Total capital expenditure							**3,427**	4,064
Segment assets	**81,565**	77,107	**111,207**	110,317	**25,483**	16,706	**218,255**	204,130
Unallocated corporate assets							**36,047**	28,545
Consolidated total assets							**254,302**	232,675

The group derived its revenues from a number of countries. The three significant countries where revenue was 10% or more of total revenue were Australia totalling $37,437,249 (2017: $30,973,976), the United States of America totalling $40,925,187 (2017: $43,351,228) and United Arab Emirates totalling $54,745,326 (2017: $58,605,275).

The group's non-current assets, excluding financial instruments and deferred tax assets, were located as follows: Australia $121,473,282 (2017: $116,833,668), the United States of America $106,279 (2017: $136,001), Ireland $19,117 (2017: $3,640), Canada $37,051,394 (2017: $33,931,551) and United Arab Emirates $256,308 (2017: $254,600).

Notes to and forming part of the financial statements
for the year ended 30 June 2018 (continued)

GROUP PERFORMANCE (continued)

	Consolidated	
	2018 $000	2017 $000
3. Expenses		
Net financing costs:		
Interest income	**(94)**	(80)
Net foreign exchange (gain)/loss	**222**	97
Interest expense	**602**	877
	730	894
Depreciation of:		
Leasehold property	**148**	105
Plant and equipment	**2,699**	2,313
	2,847	2,418
Amortisation of:		
Product development - straight-line	**7,891**	7,438
Product development - units of production	**3,339**	–
Intellectual property	**1,939**	3,035
Computer software	**161**	276
Licences	**484**	898
	13,814	11,647
Personnel expenses:		
Wages and salaries	**38,629**	37,923
Other associated personnel expenses	**3,541**	3,095
Contributions to defined contribution superannuation plans	**3,158**	3,160
Long service leave expense	**466**	402
Annual leave expense	**1,743**	1,562
	47,537	46,142
Additional expenses disclosed:		
Operating lease rental expense	**5,580**	5,631

4. Other expenses / (income)

	2018 $000	2017 $000
Impairment of asset held for sale - Newton property	**–**	1,219
(Gain)/loss on sale of property, plant and equipment	**161**	521
Other expenses/(income)	**(9)**	(22)
	152	1,718

	Consolidated 2018 $000	Consolidated 2017 $000
5. Dividends		
Codan Limited has provided or paid for dividends as follows:		
(i) ordinary final fully-franked dividend of 4.0 cents per ordinary share paid on 3 October 2017	**7,125**	–
(ii) special final fully-franked dividend of 3.0 cents per ordinary share paid on 3 October 2017	**5,343**	–
(iii) ordinary interim fully-franked dividend of 4.0 cents per ordinary share paid on 3 April 2018	**7,125**	–
(iv) ordinary final fully-franked dividend of 4.0 cents per ordinary share paid on 4 October 2016	**–**	7,088
(v) ordinary interim fully-franked dividend of 3.0 cents per ordinary share paid on 1 April 2017	**–**	5,318
(vi) special interim fully-franked dividend of 3.0 cents per ordinary share paid on 1 April 2017	**–**	5,318
	19,593	17,724

Subsequent events

Since the end of the financial year, the directors declared a final ordinary fully franked dividend of 4.5 cents per share and a fully-franked special dividend of 4.0 cents per share, bringing total final dividends to 8.5 cents fully franked, payable on 14 September 2018. The financial impact of this final dividend of $15,146,149 has not been brought to account in the group financial statements for the year ended 30 June 2018 and will be recognised in subsequent financial reports.

Dividend franking account

	2018	2017
Franking credits available to shareholders for subsequent financial years (30%)	**23,334**	19,983

The franking credits available are based on the balance of the dividend franking account at year-end, adjusted for the franking credits that will arise from the payment of the current tax liability. The ability to utilise the franking account credits is dependent upon there being sufficient available profits to declare dividends. Based upon the above declared dividend, the impact on the dividend franking account of dividends proposed after the balance sheet date but not recognised as a liability is to reduce it by $6,491,207 (2017: $5,318,886).

6. Earnings per share

The group presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise performance rights granted to employees.

	2018	2017
Net profit used for the purpose of calculating basic and diluted earnings per share	**41,575**	43,515

The weighted average number of shares used as the denominator number for basic earnings per share was 177,951,688 (2017: 177,226,317). The movement in the year is as a consequence of the shares issued under the employee share plan.

The calculation of diluted earnings per share at 30 June 2018 was based on a weighted average number of ordinary shares outstanding, after adjustment for the effects of all dilutive potential ordinary shares of 179,977,716 (2017: 179,520,965). The movement in the year relates to the shares issued under the employee share plan and the performance rights granted.

Notes to and forming part of the financial statements
for the year ended 30 June 2018 (continued)

TAXATION

	Consolidated	
	2018 $000	**2017 $000**
7. Income tax		
A. Income tax expense		
Current tax expense:		
Current tax paid or payable for the financial year	**13,064**	16,803
Adjustments for prior years	**(606)**	(715)
	12,458	16,088
Deferred tax expense:		
Origination and reversal of temporary differences	**(814)**	(118)
Total income tax expense in income statement	**11,644**	15,970
Reconciliation between tax expense and pre-tax net profit:		
The prima facie income tax expense calculated at 30% on the profit from ordinary activities	**15,958**	17,845
Decrease in income tax expense due to:		
Additional deduction for research and development expenditure	**(2,229)**	(1,424)
(Over)/under provision for taxation in previous years	**(606)**	(715)
Demolition of buildings	**(1,714)**	–
Sundry items	**(6)**	(211)
	11,403	15,495
Increase in income tax expense due to:		
Non-deductible expenses	**229**	40
Non-deductible capital loss	**–**	366
Effect of tax rates in foreign jurisdictions	**12**	69
Income tax expense	**11,644**	15,970
B. Current tax liabilities / assets		
Balance at the beginning of the year	**(16,089)**	(1,898)
Net foreign currency differences on translation of foreign entities	**(4)**	(3)
Income tax paid (net)	**22,616**	1,526
Adjustments from prior year	**575**	1,089
Current year's income tax paid or payable on operating profit	**(13,064)**	(16,803)
	(5,966)	(16,089)
Disclosed in balance sheet as:		
Current tax asset	**91**	47
Current tax payable	**(6,057)**	(16,136)
	(5,966)	(16,089)

	Consolidated	
	2018 $000	**2017 $000**
C. Deferred tax liabilities		
Provision for deferred income tax comprises the estimated expense at the applicable rate of 30% on the following items:		
Expenditure currently tax deductible but deferred and amortised for accounting	**18,441**	16,412
Set-off of tax in relation to deferred tax assets:		
Difference in depreciation of property, plant and equipment	**(397)**	(264)
Payments for intellectual property not currently deductible	**(3,051)**	(2,919)
Provisions for employee benefits not currently deductible	**(1,799)**	(1,742)
Provisions and accruals not currently deductible	**(2,942)**	(2,898)
Sundry items	**(350)**	(30)
Carry forward overseas tax losses	**(20)**	–
Carry forward overseas R&D tax credits	**(3,888)**	(1,322)
	5,994	7,237

Notes to and forming part of the financial statements
for the year ended 30 June 2018 (continued)

CASH MANAGEMENT

	Consolidated 2018 $000	Consolidated 2017 $000
8. Cash and cash equivalents		
Petty cash	**300**	159
Cash at bank	**27,411**	21,262
	27,711	21,421
9. Loans and borrowings		
The group has access to the following lines of credit:		
Total facilities available at balance date:		
Multi-option facility	**40,000**	55,000
Commercial credit card	**200**	200
	40,200	55,200
Facilities utilised at balance date:		
Multi-option facility - guarantees	**3,336**	2,537
Commercial credit card	**11**	10
	3,347	2,547
Facilities not utilised at balance date:		
Multi-option facility	**36,664**	52,463
Commercial credit card	**189**	190
	36,853	52,653

In addition to these facilities, the group has cash at bank and short-term deposits of $27,711,000 as set out in note 8.

Bank Facilities

Facilities are supported by interlocking guarantees between the company and its subsidiaries. The multi-option facility of $40 million was renegotiated with a three-year term expiring in January 2022 subject to compliance with certain financial covenants, with an additional facility of $40 million available subject to our financial institutions' approval.

	Consolidated 2018 %	Consolidated 2017 %
Weighted average interest rates:		
Cash at bank	**0.45**	0.48
Cash advance	**2.60**	2.54

	Consolidated	
	2018 $000	**2017 $000**

10. Notes to the statement of cash flows

Reconciliation of profit after income tax to net cash provided by operating activities		
Profit after income tax	**41,548**	43,513
Add/(less) items classified as investing or financing activities:		
(Gain)/loss on sale of non-current assets	**161**	521
Add/(less) non-cash items:		
Depreciation of:		
Leasehold property	**148**	105
Plant and equipment	**2,699**	2,313
Impairment of asset held for sale - Newton property	**–**	1,219
Amortisation	**13,814**	11,647
Performance rights and employee share plan expensed	**980**	1,323
Increase/(decrease) in income taxes	**(10,972)**	14,620
Increase/(decrease) in net assets affected by translation	**(100)**	67
Net cash from operating activities before changes in assets and liabilities	**48,278**	75,328
Change in assets and liabilities during the financial year:		
Reduction/(increase) in receivables	**(9,227)**	(1,458)
Reduction/(increase) in inventories	**(561)**	(2,549)
Reduction/(increase) in other assets	**463**	(1,993)
Increase/(reduction) in trade and other payables	**9,113**	5,750
Increase/(reduction) in provisions	**152**	502
Net cash from operating activities	**48,218**	75,580

Notes to and forming part of the financial statements
for the year ended 30 June 2018 (continued)

OPERATING ASSETS AND LIABILITIES

	Consolidated	
	2018 $000	**2017 $000**

11. Trade and other receivables

	2018 $000	2017 $000
Current		
Trade receivables	**29,994**	21,105
Less: Provision for impairment losses	**(459)**	(833)
	29,535	20,272
Other debtors	**249**	285
	29,784	20,557

12. Inventory

	2018 $000	2017 $000
Raw materials	**6,565**	5,593
Work in progress	**12,695**	10,922
Finished goods	**12,328**	14,512
	31,588	31,027

In 2018, inventories of $83.9 million (2017: $79.1 million) were recognised as an expense during the year and included in cost of sales.

13. Other assets

	2018 $000	2017 $000
Prepayments	**2,188**	2,306
Net foreign currency hedge receivable	–	556
Project work in progress	–	217
Other	**286**	414
	2,474	3,493

14. Assets held for sale

	2018 $000	2017 $000
Freehold land	**3,750**	3,750
Reconciliation		
Carrying amount at beginning of year	**3,750**	5,003
Disposals	–	(34)
Impairment	–	(1,219)
Carrying amount at end of year	**3,750**	3,750

During the year, the company has signed a contract for the sale of its Newton property. The contract is subject to a number of conditions to be satisfied by the purchaser, with settlement expected to take place in FY20.

	Consolidated	
	2018 $000	2017 $000

15. Property, plant and equipment

	2018 $000	2017 $000
Leasehold property at cost	**858**	826
Accumulated amortisation	**(498)**	(347)
	360	479
Plant and equipment at cost	**33,397**	29,739
Accumulated depreciation	**(22,595)**	(19,932)
	10,802	9,807
Capital work in progress at cost	**1,327**	1,699
Total property, plant and equipment	**12,489**	11,985
Reconciliations		
Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:		
Leasehold property improvements		
Carrying amount at beginning of year	**479**	832
Additions	**25**	119
Disposals	**(9)**	(374)
Depreciation	**(148)**	(105)
Net foreign currency differences on translation of foreign entities	**13**	7
Carrying amount at end of year	**360**	479
Plant and equipment		
Carrying amount at beginning of year	**9,807**	9,334
Additions	**2,407**	2,272
Transfers	**1,367**	607
Disposals	**(168)**	(45)
Depreciation	**(2,699)**	(2,313)
Net foreign currency differences on translation of foreign entities	**88**	(48)
Carrying amount at end of year	**10,802**	9,807
Capital work in progress at cost		
Carrying amount at beginning of year	**1,699**	633
Additions, net of transfers	**(372)**	1,066
Carrying amount at end of year	**1,327**	1,699
Total carrying amount at end of year	**12,489**	11,985

Notes to and forming part of the financial statements
for the year ended 30 June 2018 (continued)

OPERATING ASSETS AND LIABILITIES (continued)

	Consolidated	
	2018 $000	**2017 $000**

16. Product development

Product development at cost	**131,545**	114,687
Accumulated amortisation	**(71,715)**	(60,498)
	59,830	54,189
Reconciliation		
Carrying amount at beginning of year	**54,189**	45,336
Capitalised in current period	**16,543**	16,418
Amortisation	**(11,230)**	(7,438)
Net foreign currency differences on translation of foreign entities	**328**	(127)
	59,830	54,189

17. Intangible assets

Goodwill	**82,978**	82,529
Intellectual property at cost	**21,674**	19,617
Accumulated amortisation	**(19,355)**	(17,401)
	2,319	2,216
Computer software at cost	**10,386**	10,258
Accumulated amortisation	**(10,063)**	(9,904)
	323	354
Licences at cost	**5,440**	5,098
Accumulated amortisation	**(4,475)**	(3,991)
	965	1,107
Total intangible assets	**86,585**	86,206
Reconciliations		
Goodwill		
Carrying amount at beginning of year	**82,529**	83,274
Net foreign currency differences on translation of foreign entities	**449**	(745)
	82,978	82,529
Intellectual property		
Carrying amount at beginning of year	**2,216**	1,938
Additions	**2,029**	3,336
Amortisation	**(1,939)**	(3,035)
Net foreign currency differences on translation of foreign entities	**13**	(23)
	2,319	2,216

	Consolidated 2018 $000	Consolidated 2017 $000
Computer software		
Carrying amount at beginning of year	**354**	422
Additions	**128**	277
Amortisation	**(161)**	(276)
Disposals	**–**	(72)
Net foreign currency differences on translation of foreign entities	**2**	3
	323	354
Licences		
Carrying amount at beginning of year	**1,107**	2,005
Acquisitions	**342**	–
Amortisation	**(484)**	(898)
	965	1,107
The following segments have significant carrying amounts of goodwill:		
Communications	**20,483**	20,034
Metal detection	**53,957**	53,957
Tracking solutions	**8,538**	8,538
	82,978	82,529

Goodwill

The recoverable amount of cash generating units has been determined using value-in-use calculations.

The cash-generating units within Communications and Metal detection are well established businesses, and the approach to the value-in-use calculations for these units is similar. The first year of the cash flow forecasts is based on the oncoming year's budget, and cash flows are forecast for a five-year period. The key assumption driving the value-in-use valuation is the level of sales, which is based on management assessment, having regard to the demand expected from customers, the global economy and the businesses' competitive position. Other assumptions relate to the level of gross margins achieved on sales and the level of expense required to run the business. These assumptions reflect past experience. A terminal value has been determined at the conclusion of five years assuming a long-term growth rate of 3%. A pre-tax discount rate of 14% has been applied to the forecast cash flows. Management's sensitivity analysis indicates that there is not a reasonable possibility that changes in the assumptions used would result in an impairment in the cash-generating units.

Tracking solutions, which comprises Minetec, was acquired by Codan in 2012 and, over the past six years, Minetec has developed unique, high-precision productivity and safety solutions for underground hard-rock mines.

The strategy for Minetec is to pursue opportunities that will scale the business to achieve sales and profitability levels that will make a significant contribution to the Codan group. In February 2018, Minetec entered into a global licensing, technology development and marketing agreement with Caterpillar Inc. Under the terms of this agreement, Caterpillar and Minetec have begun integrating Minetec's high-precision tracking capability into an expanded Caterpillar Minestar® underground solution for hard-rock mines. The combined solution will be taken to market under the Caterpillar brand through the Caterpillar global dealer network. Furthermore, during the year Minetec secured a $9.5 million contract to supply a fleet management system to BHP's Olympic Dam mine in South Australia. This followed a highly competitive global tender process and is separate from the Caterpillar agreement. It is the largest contract won by Minetec under Codan's ownership and validates the value of Minetec's technology.

In performing the value-in-use calculations for the Minetec business, the first year of the cash flow forecasts is based on the oncoming year's budget. Cash flows are forecast for a five-year period. As the business is in the early stage of its development, historical data is not reflective of the possible future outcomes. The key assumption to the valuation scenario is the level of sales to be achieved by this business. To prepare the sales forecasts, management have considered a number of known opportunities that are expected to adopt Minetec's

Notes to and forming part of the financial statements
for the year ended 30 June 2018 (continued)

OPERATING ASSETS AND LIABILITIES (continued)

17. Intangible assets (continued)

Goodwill (continued)

technology in oncoming years. Other assumptions relate to the level of gross margins achieved on sales, the level of expense to run the business and working capital requirements, and these assumptions are reflective of Codan's past experience with technology-based businesses. A terminal value has been determined at the conclusion of five years assuming a long term growth rate of 3%. A pre-tax discount rate of 17% has been applied to the forecast cash flows.

The key risk to the value-in-use calculations is that the mining industry does not adopt the Minetec technology being developed. Management's sensitivity analysis indicates that there is not a reasonable possibility that changes in the assumptions used would result in an impairment in the cash-generating units.

Intellectual Property

Subsequent to the acquisition of Minelab Electronics Pty Limited by Codan Limited in 2008, Minelab Electronics Pty Limited acquired ownership of the intellectual property that forms the basis for its metal detection products. The consideration payable under the agreement was based on the sales of metal detection products over a ten-year period. An asset in relation to the acquired intellectual property was recognised as Minelab Electronics Pty Limited became liable for the payments under the contract.

Licences

The company entered into a licence agreement on 30 June 2011 with a leading provider of advanced technology for high frequency radio communications products. Licence payments are being made as technology is delivered to the company. The licenced technology allows the company access to next-generation radio waveforms for high-speed data transmission, automatic link establishment and digital voice.

	Consolidated	
	2018 $000	**2017 $000**
18. Trade and other payables		
Current		
Trade payables	**25,693**	18,918
Other payables and accruals	**20,039**	17,701
Net foreign currency hedge payable	**614**	–
	46,346	36,619
19. Provisions		
Current		
Employee benefits	**5,847**	5,574
Warranty repairs	**1,452**	1,593
	7,299	7,167
Non-Current		
Employee benefits	**541**	521
Reconciliation of warranty provision		
Carrying amount at beginning of year	**1,593**	1,160
Provisions made	**1,201**	1,748
Payments made	**(1,342)**	(1,315)
	1,452	1,593

CAPITAL MANAGEMENT

	Consolidated	
	2018 $000	2017 $000

20. Share capital

	2018 $000	2017 $000
Share capital		
Opening balance (177,296,186 ordinary shares fully paid)	**43,928**	42,605
Performance rights expensed	**–**	1,137
Transfers to and from reserves	**(1,954)**	–
Issue of share capital through vested performance rights	**541**	–
Issue of share capital through employee share plan	**206**	186
Closing balance (178,189,989 ordinary shares fully paid)	**42,721**	43,928

Terms and conditions

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings. In the winding up of the company, ordinary shareholders rank after all creditors and are fully entitled to any proceeds on liquidation.

21. Reserves

	2018 $000	2017 $000
Foreign currency translation	**3,588**	2,634
Hedging reserve	**(430)**	389
Equity based payment reserve	**2,187**	–
Profit reserve	**58,981**	58,981
	64,326	62,004

Foreign currency translation

The foreign currency translation reserve records the foreign currency differences arising from the translation of foreign operations.

	2018 $000	2017 $000
Balance at beginning of year	**2,634**	4,176
Net translation adjustment	**954**	(1,542)
Balance at end of year	**3,588**	2,634

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in fair value of cash flow hedging instruments (net of tax) related to hedged transactions that have not yet occurred.

	2018 $000	2017 $000
Balance at beginning of year	**389**	(114)
Gains/(losses) on cash flow hedges taken to/from hedging reserve	**(819)**	503
Balance at end of year	**(430)**	389

Equity based payment reserve

The equity based payment reserve comprises Codan Limited's accumulated expenses in relation to unvested performance rights. During the financial year, $1,954,000 was transferred from Share Capital to Equity Based Payment Reserve which relates to unvested performance rights expensed since the performance rights were issued.

	2018 $000	2017 $000
Balance at beginning of year	**–**	–
Performance rights expensed	**774**	–
Transfers from Share Capital	**1,954**	–
Performance rights vested	**(541)**	–
Balance at end of year	**2,187**	–

Notes to and forming part of the financial statements
for the year ended 30 June 2018 (continued)

CAPITAL MANAGEMENT (continued)

21. Reserves (continued)

	Consolidated	
	2018 $000	2017 $000
Profit reserve		
The profit reserve comprises a portion of Codan Limited's accumulated profits.		
Balance at beginning of year	**58,981**	58,981
Balance at end of year	**58,981**	58,981

22. Capital management

The board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The board of directors monitors the level of dividends paid to ordinary shareholders and the overall return on capital.

The board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings, and the advantages and security afforded by a sound capital position. This approach has not changed from previous years.

Neither the company nor any of its subsidiaries is subject to externally imposed capital requirements.

GROUP STRUCTURE

23. Group entities

Name	Country of incorporation	Class of share	Interest held 2018 %	Interest held 2017 %
Parent Entity				
Codan Limited	Australia	Ordinary		
Controlled Entities				
Codan Defence Electronics Pty Ltd	Australia	Ordinary	**100**	100
Codan Executive Share Plan Pty Ltd	Australia	Ordinary	**100**	100
Codan Radio Communications ME DMCC	UAE	Ordinary	**100**	100
Codan Radio Communications Pty Ltd	Australia	Ordinary	**100**	100
Codan (UK) Limited	England	Ordinary	**100**	100
Codan US Inc	USA	Ordinary	**100**	100
Daniels Electronics Ltd	Canada	Ordinary	**100**	100
Minelab Americas Inc	USA	Ordinary	**100**	100
Minelab do Brasil Equipamentos Para Mineração Ltda*	Brazil	Ordinary	**100**	–
Minelab Electronics Pty Limited	Australia	Ordinary	**100**	100
Minelab International Limited	Ireland	Ordinary	**100**	10
Minelab MEA General Trading LLC	UAE	Ordinary	**49**	49
Minelab Mining Pro (FZE)	UAE	Ordinary	**100**	100
Minelab Mining Pro General Trading (FZC)	UAE	Ordinary	**50**	50
Minetec Pty Ltd	Australia	Ordinary	**100**	100
Minetec RSA (Pty) Ltd	South Africa	Ordinary	**100**	100

** Minelab do Brasil Equipamentos Para Mineração Ltda was incorporated on 26 April 2018.*

Notes to and forming part of the financial statements
for the year ended 30 June 2018 (continued)

GROUP STRUCTURE (continued)

24. Deed of cross guarantee

Pursuant to ASIC Corporations (Wholly owned Companies) Instrument 2016/785, the wholly-owned subsidiary listed below is relieved from the *Corporations Act 2001* requirements for preparation, audit and lodgement of financial and director's reports.

It is a condition of the Class Order that the company and its subsidiary enter into a Deed of Cross Guarantee. The effect of the Deed is that the company guarantees to each creditor payment in full of any debt in the event of the winding up of the subsidiary under certain provisions of the *Corporations Act 2001*. If a winding up occurs under the provisions of the Act, the company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiary has also given similar guarantees in the event that the company is wound up.

Minelab Electronics Pty Limited is the only subsidiary subject to the Deed. Minelab Electronics Pty Limited became a party to the Deed on 22 June 2009, by virtue of a Deed of Assumption.

A summarised consolidated income statement and a consolidated balance sheet, comprising the company and controlled entity which is a party to the Deed, after eliminating all transactions between the parties to the Deed of Cross Guarantee, is set out as follows:

	Consolidated	
	2018 $000	2017 $000
Summarised income statement and retained earnings	**52,572**	61,889
Profit before tax	**52,572**	61,889
Income tax expense	**(12,878)**	(15,714)
Profit after tax	**39,694**	46,175
Retained earnings at beginning of year	**46,642**	18,191
Retained earnings at end of year	**66,743**	46,642
Balance sheet		
Current assets		
Cash and cash equivalents	**21,486**	17,338
Trade and other receivables	**60,062**	62,114
Inventories	**24,558**	26,076
Assets held for sale	**3,750**	3,750
Other assets	**2,282**	2,482
Total current assets	**112,138**	111,760
Non-current assets		
Investments	**13,888**	13,705
Property, plant and equipment	**9,974**	8,857
Product development	**39,297**	38,311
Intangible assets	**56,182**	56,374
Total non-current assets	**119,341**	117,247
Total assets	**231,479**	229,007

	Consolidated 2018 $000	2017 $000
Current liabilities		
Trade and other payables	**37,291**	31,845
Other liabilities	**5,763**	17,156
Current tax payable	**6,033**	15,938
Provisions	**5,846**	5,877
Total current liabilities	**54,933**	70,816
Non-current liabilities		
Deferred tax liabilities	**3,710**	4,580
Provisions	**439**	430
Total non-current liabilities	**4,149**	5,010
Total liabilities	**59,082**	75,826
Net assets	**172,397**	153,181
Equity		
Share capital	**42,721**	45,041
Reserves	**62,933**	61,498
Retained earnings	**66,743**	46,642
Total equity	**172,397**	153,181

25. Parent entity disclosures

As at, and throughout, the financial year ending 30 June 2018, the parent company of the group was Codan Limited.

	Consolidated 2018 $000	2017 $000
Result of parent entity		
Profit after tax for the period	**40,471**	28,670
Other comprehensive income	**1,397**	(280)
Total comprehensive income for the period	**41,868**	**28,390**
Financial position of parent entity at year end		
Current assets	**97,724**	83,285
Total assets	**199,834**	184,811
Current liabilities	**42,887**	47,229
Total liabilities	**48,186**	53,423
Total equity of the parent entity comprising:		
Share capital	**42,721**	45,041
Reserves	**60,098**	58,396
Retained earnings	**48,829**	27,951
Total equity	**151,648**	**131,388**

During the year, Codan Limited entered into contracts to purchase plant and equipment for $837,308 (2017: $1,159,651).

Notes to and forming part of the financial statements
for the year ended 30 June 2018 (continued)

OTHER NOTES

26. Auditor's remuneration

	Consolidated 2018 $	Consolidated 2017 $
Audit services:		
KPMG Australia - audit and review of financial reports	**204,874**	195,651
Overseas other firms - audit and review of financial reports	**67,471**	57,489
Other services:		
KPMG Australia - taxation services	**56,760**	62,100
KPMG Australia - other services	**32,591**	35,290
Overseas KPMG firms - taxation services	**27,220**	186,627
Overseas other firms - taxation & other services	**76,884**	36,753
	465,800	573,910

27. Commitments

	Consolidated 2018 $000	Consolidated 2017 $000
I. Capital expenditure commitments		
Aggregate amount of contracts for capital expenditure on property, plant and equipment and intangibles:		
Within one year	**1,315**	2,050
One year or later and no later than five years	**–**	–
	1,315	2,050
II. Non-cancellable operating lease expense and other commitments		
Future operating lease commitments not provided for in the financial statements which are payable:		
Within one year	**5,231**	4,994
One year or later and no later than five years	**13,670**	15,066
Later than five years	**23,893**	26,514
	42,794	46,574

The group leases property under non-cancellable operating leases with a term of one to fifteen years. Leases generally provide the group with a right of renewal, at which time all terms are renegotiated. Lease payments normally comprise a base amount and an adjustment for the consumer price index.

28. Additional financial instruments disclosure

Financial risk management

Overview

The group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risk.

This note presents information about the group's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and its management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The board of directors has overall responsibility for the establishment and oversight of the risk management framework. The Board Audit, Risk and Compliance Committee is responsible for developing and monitoring risk management policies. The committee reports regularly to the board on its activities.

Risk management policies are established to identify and analyse the risks faced by the group, to set appropriate risk limits and controls, and to monitor risk and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the group's activities. The group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Board Audit, Risk and Compliance Committee oversees how management monitors compliance with the group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the group.

(a) Credit risk

Credit risk is the risk of financial loss to the group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the group's receivables from customers.

The credit risk on the financial assets of the consolidated entity is the carrying amount of the asset, net of any impairment losses recognised.

The group minimises concentration of credit risk by undertaking transactions with a large number of customers in various countries. As at 30 June 2018, the customer with the group's highest trade and other receivable balance accounted for $6.2 million (2017: nil).

Trade and other receivables

The group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the group's customer base, including the default risk of the industry and country in which customers operate, has less of an influence on credit risk.

The group has established a credit policy under which new customers are analysed for credit worthiness before the group's payment and delivery terms and conditions are offered.

Goods are sold subject to retention of title clauses, so that in the event of non-payment the group may have a secured claim. The group does not normally require collateral in respect of trade and other receivables.

The group has established an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified.

Guarantees

Group policy is to provide financial guarantees only to wholly owned subsidiaries.

Notes to and forming part of the financial statements
for the year ended 30 June 2018 (continued)

OTHER NOTES (continued)

28. Additional financial instruments disclosure (continued)

(a) Credit risk (continued)

The carrying amount of the group's financial assets represents the maximum credit exposure. The group's maximum exposure to credit risk at the reporting date was:

		Carrying amount Consolidated	
	Note	2018 $000	2017 $000
Cash and cash equivalents	8	**27,711**	21,421
Trade and other receivables	11	**29,784**	20,557

The group's maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:		
Australia/Oceania	**8,484**	3,766
Europe	**3,824**	4,015
Americas	**7,560**	8,674
Asia	**3,349**	1,875
Africa/Middle East	**6,777**	2,775
	29,994	21,105

Impairment losses

The aging of the group's trade receivables at the reporting date was:

	Consolidated			
	Gross 2018 $000	Impairment 2018 $000	Gross 2017 $000	Impairment 2017 $000
Not past due	**25,115**	**(211)**	16,058	(205)
Past due 0-30 days	**3,629**	**–**	3,881	(110)
Past due 31-60 days	**378**	**–**	175	–
Past due 61-120 days	**621**	**(46)**	470	(26)
More than 120 days	**251**	**(202)**	521	(492)
	29,994	**(459)**	21,105	(833)

Trade receivables have been reviewed, taking into consideration letters of credit held and the credit assessment of the individual customers. The impairment recognised is considered appropriate for the credit risk remaining.

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	Consolidated	
	2018 $000	2017 $000
Balance at 1 July	**833**	808
Impairment loss/(reversal) recognised	**(122)**	159
Trade receivables written off to the allowance for impairment	**(252)**	(134)
Balance at 30 June	**459**	833

(b) Liquidity risk

Liquidity risk is the risk that the group will not be able to meet its financial obligations as they fall due. The group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions and without incurring unacceptable losses or risking damage to the group's reputation. Refer to note 9 for a summary of banking facilities available.

The following are the contractual maturities of financial liabilities:

	Carrying amount $000	Contractual cash flows $000	12 months or less $000	1-5 years $000	More than 5 years $000
30 June 2018					
Non-derivative financial liabilities					
Trade and other payables	**45,732**	**(45,732)**	**(45,732)**	**–**	**–**
	45,732	**(45,732)**	**(45,732)**		
Derivative financial liabilities					
Net foreign currency hedge payables	**614**	**(614)**	**(614)**	**–**	**–**
	614	**(614)**	**(614)**	**–**	**–**
30 June 2017					
Non-derivative financial liabilities					
Trade and other payables	36,619	(36,619)	(36,619)	–	–
	36,619	(36,619)	(36,619)	–	–
Derivative financial liabilities					
Net foreign currency hedge payables	–	–	–	–	–
	–	–	–	–	–

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The group enters into derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the policy set by the board. Generally, the group seeks to apply hedge accounting in order to manage volatility in the income statement.

The net fair values of monetary financial assets and financial liabilities not readily traded in an organised financial market are determined by valuing them at the present value of the contractual future cash flows on amounts due from customers (reduced for expected credit losses), or due to suppliers. The carrying amount of financial assets and financial liabilities approximates their net fair values.

Notes to and forming part of the financial statements
for the year ended 30 June 2018 (continued)

OTHER NOTES (continued)

28. Additional financial instruments disclosure (continued)

(c) Market risk (continued)

Interest rate risk

Profile

At the reporting date, the interest rate profile of the group's interest-bearing financial instruments was:

	Carrying amount Consolidated 2018 $000	2017 $000
Fixed rate instruments		
Financial assets	**10,000**	2,011
Financial liabilities	**–**	–
	10,000	2,011
Variable rate instruments		
Financial assets	**17,711**	19,410
Financial liabilities	**–**	–
	17,711	19,410

Cash flow sensitivity

If interest rates varied by 100 basis points for the full financial year, then based on the balance of variable rate instruments held at the reporting date, profit and equity would have been affected as shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2017.

	Profit/(loss) before tax		Reserve	
	100 bp increase $000	100 bp decrease $000	100 bp increase $000	100 bp decrease $000
30 June 2018				
Variable rate instruments	**177**	**(177)**	**–**	**–**
30 June 2017				
Variable rate instruments	194	(194)	–	–

Currency risk

The group is exposed to currency risk on sales, purchases and balance sheet accounts that are denominated in a currency other than the respective functional currencies of group entities, primarily the Australian dollar (AUD). The currencies in which these transactions are denominated are primarily USD and EUR.

The group enters into foreign currency hedging instruments or borrowings denominated in a foreign currency to hedge certain anticipated highly probable sales denominated in foreign currency (principally in USD). The terms of these commitments are usually less than 12 months. As at the reporting date, the group has entered into a mix of forward exchange contracts and collar hedge instruments which will limit the foreign exchange risk on USD $22,002,000 of FY19 cash flows. On average, the collars give protection above 77 cents and enable participation down to 73 cents, and the average forward exchange contract rate is 76 cents.

The group's exposure to foreign currency risk (in AUD equivalent), after taking into account hedge transactions at reporting date, was as follows:

	Consolidated	
	EUR $000	USD $000
30 June 2018		
Cash and cash equivalents	**630**	4,761
Trade receivables	**1,442**	15,529
Trade payables	**(69)**	(16,299)
Gross balance sheet exposure	**2,003**	3,991
Hedge transactions relating to balance sheet exposure	**–**	(2,255)
Net exposure at the reporting date	**2,003**	1,736
30 June 2017		
Cash and cash equivalents	**338**	2,986
Trade receivables	**1,110**	12,348
Trade payables	**(15)**	(13,230)
Gross balance sheet exposure	**1,433**	**2,104**
Hedge transactions relating to balance sheet exposure	–	(1,666)
Net exposure at the reporting date	**1,433**	**438**

Sensitivity analysis

Given the foreign currency balances included in the balance sheet as at reporting date, if the Australian dollar at that date strengthened by 10%, then the impact on profit and equity arising from the balance sheet exposure would be as follows:

	Consolidated	
	Reserve credit/(debit) $000	Profit/(loss) before tax $000
2018		
EUR	**–**	**(182)**
USD	**56**	**(158)**
	56	**(340)**
2017		
EUR	–	(130)
USD	(51)	(40)
	(51)	(170)

Notes to and forming part of the financial statements
for the year ended 30 June 2018 (continued)

OTHER NOTES (continued)

28. Additional financial instruments disclosure (continued)

Sensitivity analysis (continued)

A 10% weakening of the Australian dollar against the above currencies at 30 June would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(d) Fair value hierarchy

The group's financial instruments carried at fair value have been valued by using a "level 2" valuation method. Level 2 valuations are obtained from inputs, other than quoted prices, that are observable for the asset or liability either directly or indirectly. At the end of the current year, financial instruments valued at fair value were limited to net foreign currency hedge payable of $614,376, for which an independent valuation was obtained from the relevant banking institution.

	Consolidated	
	2018 $000	**2017 $000**
29. Employee benefits		
Aggregate liability for employee benefits, including on-costs:		
Current - other creditors and accruals	**5,357**	6,035
Current - employee entitlements	**5,847**	5,574
Non-current - employee entitlements	**541**	521
	11,745	12,130
The present values of employee entitlements not expected to be settled within 12 months of the reporting date have been calculated using the following weighted averages:		
Assumed rate of increase in wage and salary rates	**3.00%**	3.00%
Discount rate	**3.77%**	3.80%
Settlement term	**10 years**	10 years

Employee Share Plan

On 19 December 2012, the directors approved the establishment of an Employee Share Plan (ESP). The ESP is designed to recognise the contribution made by employees to the group, and provides eligible employees with an opportunity to share in the future growth and profitability of the company by offering them the opportunity to acquire shares in the company.

ESP shares issued in financial year 2018

The company issued 70,040 shares to eligible employees in June 2018. The fair values of the shares was $2.94 per share, based on the volume weighted average price at which Codan shares were traded on the ASX for the five trading days immediately preceding the date of issue of the shares. The exercise price was nil. The total expense recognised as employee costs in 2018 in relation to the ESP shares issued was $205,918. The shares are restricted from sale until the earlier of three years from the acquisition date or upon the date on which an employee is no longer employed by the group.

Performance Rights Plan

At the 2004 AGM, shareholders approved the establishment of a Performance Rights Plan (Plan). The Plan is designed to provide employees with an incentive to maximise the return to shareholders over the long term, and to assist in the attraction and retention of key employees.

Performance rights issued in financial year 2016

The company issued 236,948 performance rights in November 2015 to the chief executive officer. The fair value of the rights was $0.64 based on the Black-Scholes formula. The model inputs were: the share price of $0.80, no exercise price, expected volatility 43%, dividend yield 4.38%, a term of three years and a risk-free rate of 2.9%

The company issued 312,447 performance rights in April 2016 and 429,189 performance rights in May 2016 to certain employees. The fair value of the rights was on average $0.89 based on the Black-Scholes formula. The average model inputs were: the share price of $1.08, no exercise price, expected volatility 53%, dividend yield 3.72%, a term of three years and a risk-free rate of 2.6%. Due to the departure of an employee in FY18, 16,926 performance rights were cancelled.

The total recovery recognised as employee costs in 2018 in relation to the performance rights issued was $13,952 (2017: $482,495 expense).

The group's earnings per share over the three-year period to 30 June have exceeded the performance target. Therefore, it is expected that 961,658 shares will be issued to the relevant employees by 31 August 2018.

Performance rights issued in financial year 2017

The company issued 816,772 performance rights in November 2016 to certain employees. The fair value of the rights was on average $1.29 based on the Black-Scholes formula. The model inputs were: the share price of $1.57, no exercise price, expected volatility 52%, dividend yield 3.82%, a term of three years and a risk-free rate of 2.6%. Due to the departure of two employees in FY18, 51,796 performance rights were cancelled. The total expense recognised as employee costs in 2018 in relation to the performance rights issued was $435,147 (2017: $604,286 expense).

The performance rights become exercisable if certain performance thresholds are achieved. The performance threshold is based on growth of the group's earnings per share over a three-year period. For employees to receive the total number of performance rights, the group's earnings per share must increase by at least 15% per annum over the three-year period.

If achieved, performance rights are exercisable into the same number of ordinary shares in the company. No performance rights have been issued since the end of the financial year.

Performance rights issued in financial year 2018

The company issued 124,524 performance rights in November 2017 to the chief executive officer. The fair value of the rights was on average $1.80 based on the Black-Scholes formula. The model inputs were: the share price of $2.26, no exercise price, expected volatility 39%, dividend yield 5.75%, a term of three years and a risk-free rate of 2.6%.

The company issued 416,536 performance rights in December 2017 to certain employees. The fair value of the rights was on average $1.67 based on the Black-Scholes formula. The model inputs were: the share price of $2.09, no exercise price, expected volatility 37%, dividend yield 6.22%, a term of three years and a risk-free rate of 2.6%. Due to the departure of an employee in FY18, 25,000 performance rights were cancelled.

The total expense recognised as employee costs in 2018 in relation to the performance rights issued was $353,086.

The performance rights become exercisable if certain performance thresholds are achieved. The performance threshold is based on growth of the group's earnings per share over a three-year period. For employees to receive the total number of performance rights, the group's earnings per share must increase by at least 15% per annum over the three-year period.

If achieved, performance rights are exercisable into the same number of ordinary shares in the company. No performance rights have been issued since the end of the financial year.

Notes to and forming part of the financial statements
for the year ended 30 June 2018 (continued)

OTHER NOTES (continued)

30. Key management personnel disclosures

Transactions with key management personnel

(a) Loans to directors

There have been no loans to directors during the financial year.

(b) Key management personnel compensation

The key management personnel compensation included in "personnel expenses" (refer note 3) is as follows:

	Consolidated	
	2018 $000	**2017 $000**
Short-term employee benefits	**3,673,631**	4,398,121
Post-employment benefits	**115,992**	115,308
Share-based payments	**632,392**	612,195
Other long term benefits	**91,136**	107,515
	4,513,151	5,233,139

(c) Key management personnel transactions

From time to time, directors and specified executives, or their related parties, purchase goods from the group. These purchases occur within a normal employee relationship and are considered to be trivial in nature.

31. Other related parties

All transactions with non-key management personnel related parties are on normal terms and conditions.

Companies within the group purchase materials from other group companies. These transactions are on normal commercial terms.

Loans between entities in the wholly owned group are repayable at call and no interest is charged.

32. Net tangible asset / liability per share

	2018	**2017**
Net tangible asset/(liability)per share	**26.5 cents**	17.7 cents

Directors' declaration

1. In the opinion of the directors of Codan Limited ("the company"):
   a) the consolidated financial statements and notes that are set out on pages 51 to 90 and the remuneration report on pages 37 to 43 in the directors' report, are in accordance with the *Corporations Act 2001*, including:
      (i) giving a true and fair view of the group's financial position as at 30 June 2018 and of its performance for the financial year ended on that date; and
      (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

   b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
2. There are reasonable grounds to believe that the company and the group entities identified in note 23 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the company and those group entities pursuant to *ASIC Corporations (Wholly owned Companies) Instrument 2016/785*.
3. The directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the chief executive officer and chief financial officer for the financial year ended 30 June 2018.
4. The directors draw attention to note 1 to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

Dated at Mawson Lakes this 23rd day of August 2018

D J Simmons
Director

D S McGurk
Director

Independent auditor's report

Independent Auditor's Report

To the shareholders of Codan Limited

Report on the audit of the Financial Report

Opinion

We have audited the ***Financial Report*** of Codan Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 30 June 2018 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Consolidated balance sheet as at 30 June 2018
- Consolidated income statement, Consolidated statement of comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The ***Group*** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

The ***Key Audit Matters*** we identified are:

- Recoverable value of goodwill in relation to the Tracking Solutions business; and
- Recoverability of product development costs.

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KPMG

Recoverable value of goodwill in relation to the Tracking Solutions business	
Tracking Solutions Goodwill $8,538,000 – Refer to Note 17 to the Financial Report.	
The key audit matter	**How the matter was addressed in our audit**

The 'recoverable value of goodwill in relation to the Tracking Solutions business' is a Key Audit Matter due to the level of judgement required by us in evaluating the Group's assessment of the recoverable value of goodwill.
Tracking Solutions, which comprises the Minetec business, is in the early stage of commercialisation of its products, with a significant global licencing, technology development and marketing agreement signed during the year with Caterpillar and the contract to supply a fleet management system to BHP Billiton. The Group's ability to secure further market acceptance and full-scale operational deployment of its productivity and safety solutions depends on forecast growth of the mining sector and widespread uptake of the products. These conditions increase the possibility of goodwill being impaired, raising our audit focus.
The Group's assessment of the recoverable value of the Minetec business, through its value in use model, contains significant judgements.
We focused on the following areas:
• Sales forecasts, the gross margin expected to be earned, and operating costs. The uncertainty as to when the significant uptake of the products will occur makes it challenging to forecast cash flows in this business; and
• The discount rate applied to the forecast Minetec cash flows is judgemental and may vary according to the conditions and environment from time to time.
To assess the significant judgements relating to this key audit matter, we involved senior audit team members, including valuation specialists, with experience in the industry.
	Our procedures included:
	• We considered the appropriateness of the value in use method applied against the requirements of Australian Accounting Standards.
	• We assessed the integrity of the value in use model, including the accuracy of the underlying calculations.
	• We tested design and implementation of the controls for the Group's valuation of the Minetec business including board authorisation of key inputs to the value in use model such as sales forecasts, gross margin, operating costs and the discount rate.
	• We compared the forecast cash flows contained in the value in use model to these Board approved forecasts.
	• We obtained the significant agreements signed during the year, specifically the BHP Billiton contract and agreement with Caterpillar. We checked the consistency of the details of these agreements to the forecast cashflows contained in the value in use model.
	• We performed sensitivity analysis on key judgements such as sales forecasts, gross margin, operating costs and discount rates, within a reasonably possible range, to identify those assumptions at higher risk of bias and to focus our further procedures.
	• We critically evaluated the Group's key cash flow assumptions by:
	  - Comparing the drivers of sales forecasts (including identified mines where the products could be deployed, sales value and gross margin expected to be earned) to known industry trends, Minetec's price lists and existing customer contracts.
	  - Checking the consistency of the Group's forecast cash flows to the Group's stated plans and strategy; using our knowledge of the Minetec business model and its early stage of commercialisation of its products.
	  - Assessing the accuracy of previous Group forecasts to inform our evaluation of forecasts included in the value in use model.
	• Working with our valuation specialists we independently developed a discount rate range considered comparable using publicly available market data for comparable entities.
	• We assessed the appropriateness of the Group's disclosures based on the key observations arising from our testing and the requirements of Australian Accounting Standards.

Independent auditor's report (continued)

Recoverability of product development costs	
Product Development costs capitalised - $59,830,000. Refer to Note 16 to the Financial Report.	
The key audit matter	**How the matter was addressed in our audit**
The recoverability of capitalised product development costs is a key audit matter due to the: • size of the balance (being 23.5% of total assets); and • specialised nature of the Group's products, requiring us to exercise significant judgment in evaluating the Group's assessment of recoverability. We particularly focus on those judgments listed below which impact the recoverability assessment: • Estimated development expenditure at completion of the products; • Estimated product completion dates; • Forecast sales and margin to be generated from both products under development and released products; • Technical feasibility and maturity of products; and • Product lifespan. In assessing this key audit matter, we used senior team members who understand the Group's business, industry and the relevant economic environment.	Our procedures included: • We obtained an understanding of the status of significant product development projects, including the level of technical maturity, through inquiry with project management and Directors. • We tested design and implementation of the controls relevant to the Group's recoverability of capitalised product development costs, including those relating to: - review and authorisation of product development budgets, incorporating development expenditure; - technical feasibility and maturity of products; - estimated product completion dates; and - forecast sales and margin. • For a sample of products, we challenged the Group's assessment of its ability to generate future cashflows greater than the capitalised costs, through: - Challenging the Group's assessment of forecast sales, margin and product lifespan by comparing them to the: ○ sales performance of the Group's other products in the market; and ○ recent sales and margin trends where the product has been released. - We considered the consistency of key judgements with those applied by the Group and tested by us in assessing the recoverable value of goodwill. - Challenging the Group's assessment of technical maturity and estimated product completion dates underpinning the future cashflows against the costs incurred to date relative to approved budgets and the ageing profile of capitalised costs. - Analysing the accuracy of the previous Group forecasts of sales and margins to inform our evaluation of forecasts incorporated in the assessment. - Using our knowledge of the business and industry, we assessed the risk of products becoming obsolete due to products under development replacing existing products.

Other Information

Other Information is financial and non-financial information in Codan Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our Auditor's Report.

Independent auditor's report (continued)

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Codan Limited for the year ended 30 June 2018, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

Our responsibilities

We have audited the Remuneration Report included in the Directors' report for the year ended 30 June 2018.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

KPMG

Paul Cenko
Partner

Adelaide

23 August 2018

ASX additional information

Additional information required by the Australian Stock Exchange Limited Listing Rules not disclosed elsewhere in this report is set out below.

Shareholdings as at 16 August 2018

Substantial shareholders

The numbers of shares held by substantial shareholders and their associates are set out below:

Shareholder	Number of ordinary shares
I B Wall and P M Wall	34,808,151
Interests associated with Starform Pty Ltd, Dareel Pty Ltd and Pinara Group Pty Ltd	26,737,581
IOOF Holdings Limited	11,439,518
Interests associated with Kynola Pty Ltd and Warren Glen Pty Ltd	9,829,758

Distribution of equity security holders

Number of shares held	Number of equity security holders Ordinary shares
1 - 1,000	1,236
1,001 - 5,000	1,608
5,001 - 10,000	608
10,001 - 100,000	763
100,001 - over	101
Total	**4,316**

The number of shareholders holding less than a marketable parcel of ordinary shares is 276.

Securities exchange

The company is listed on the Australian Securities Exchange. The home exchange is Sydney.

Other information

Codan Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.

On-market buy-back

There is no current on-market buy-back.

ASX additional information (continued)

Shareholdings as at 16 August 2018 (continued)

Twenty largest shareholders

Name	Number of ordinary shares held	Percentage of capital held
I B Wall and P M Wall	34,808,151	19.5%
HSBC Custody Nominees (Australia) Limited	13,803,771	7.8%
Dareel Pty Ltd	12,602,479	7.1%
Starform Pty Ltd	11,404,224	6.4%
Citicorp Nominees Pty Limited	9,764,616	5.5%
National Nominees Limited	8,240,923	4.6%
J P Morgan Nominees Australia Limited	7,778,833	4.4%
Kynola Pty Ltd	6,627,548	3.7%
BNP Paribas Nominees Pty Ltd	3,703,704	2.1%
A Bettison	3,562,124	2.0%
Warren Glen Pty Ltd	3,202,210	1.8%
M K and M C Heard	3,084,899	1.7%
Mitranikitan Pty Ltd	2,522,458	1.4%
Bond Street Custodians Limited	1,743,186	1.0%
Griffinna Pty Ltd	1,575,000	0.9%
Fruehling Pty Ltd	1,480,000	0.8%
G Bettison	1,371,199	0.8%
J A Uhrig	1,217,143	0.7%
Cedara Pty Ltd	1,107,254	0.6%
Rosevine Pty Ltd	1,107,254	0.6%
Total	**130,706,976**	**73.4%**

Offices and officers

Company Secretary

Mr Michael Barton BA (ACC), CA

Principal registered office

Technology Park
2 Second Avenue
Mawson Lakes, South Australia 5095

Telephone: (08) 8305 0311
Facsimile: (08) 8305 0411

Internet address: www.codan.com.au

Location of share registry

Computershare Investor Services Pty Limited
GPO Box 1903
Adelaide, South Australia 5001

Corporate directory

Directors

- **David Simmons** (Chairman)
- **Donald McGurk** (Managing Director and Chief Executive Officer)
- **Peter Leahy AC**
- **Jim McDowell**
- **Graeme Barclay**
- **Kathy Gramp**

Company Secretary

- **Michael Barton**

Principal registered office

Technology Park
2 Second Avenue
Mawson Lakes
South Australia 5095

Auditor

KPMG
151 Pirie Street
Adelaide
South Australia 5000

Location of share registry

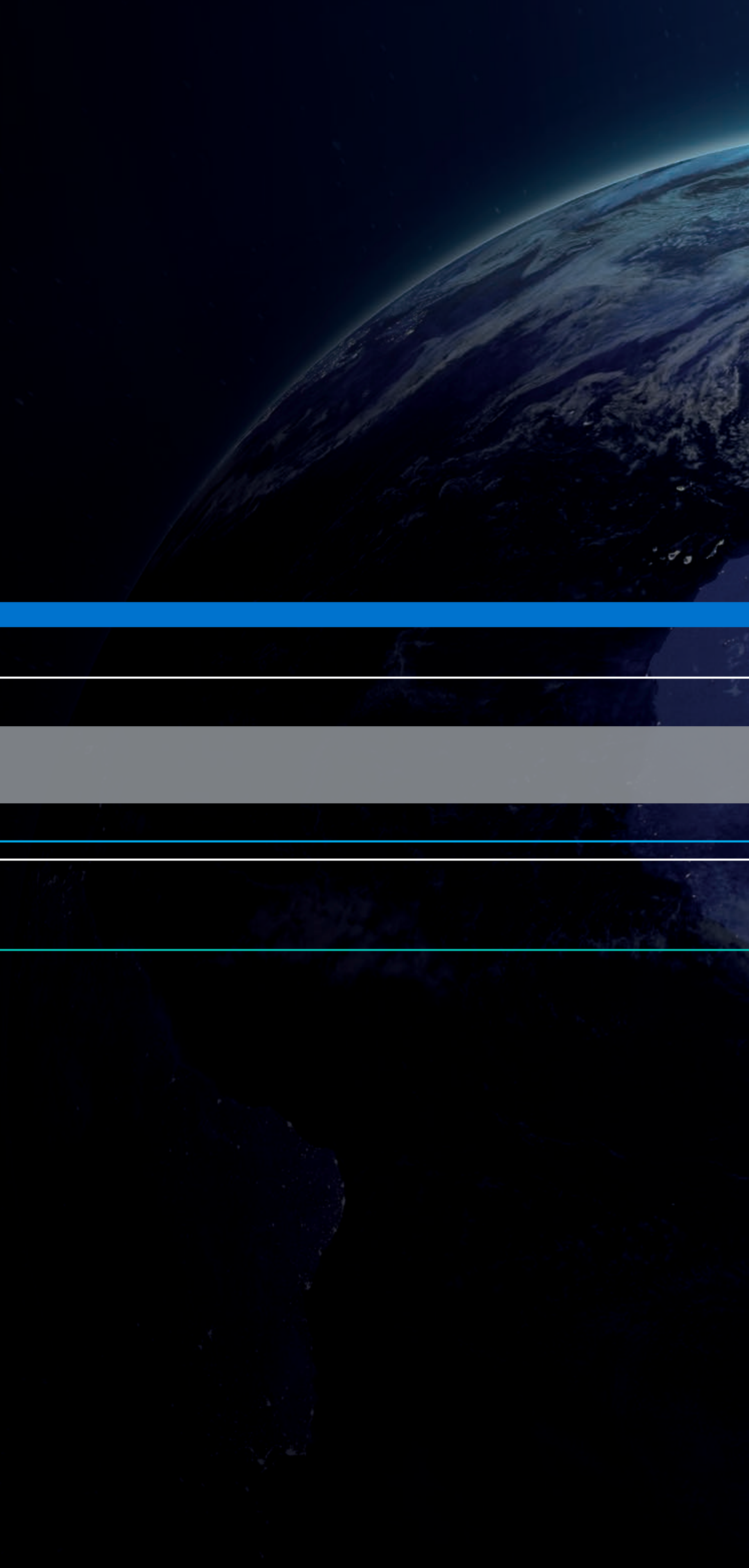
Computershare Investor Services Pty Limited
GPO Box 1903
Adelaide
South Australia 5001

Our relentless pursuit of new product innovation sits at the core of our strategic growth strategy

CODAN

ANNUAL REPORT 2018


INNOVATION
WHEREVER YOU ARE



www.codan.com.au

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